Preś-Perepeczo, Agnieszka

Article

What drives shareholders' reaction to CEO turnovers, dividend changes, and block trades? A theoretical background

Central European Economic Journal (CEEJ)

Provided in Cooperation with:
Faculty of Economic Sciences, University of Warsaw

Suggested Citation: Preś-Perepeczo, Agnieszka (2023) : What drives shareholders' reaction to CEO turnovers, dividend changes, and block trades? A theoretical background, Central European Economic Journal (CEEJ), ISSN 2543-6821, Sciendo, Warsaw, Vol. 10, Iss. 57, pp. 50-71, https://doi.org/10.2478/ceej-2023-0004

Central European Economic Journal

sciendo

ISSN: 2543-6821 (online)

Journal homepage: http://ceej.wne.uw.edu.pl

Agnieszka Preś-Perepeczo

What Drives Shareholders' Reaction To CEO Turnovers, Dividend Changes, and Block Trades? A Theoretical Background

To cite this article

Preś-Perepeczo, A. (2023). What Drives Shareholders' Reaction To CEO Turnovers, Dividend Changes, and Block Trades? A Theoretical Background. Central European Economic Journal, 10(57), 50-71.

DOI: 10.2478/ceej-2023-0004

To link to this article: https://doi.org/10.2478/ceej-2023-0004

Central European Economic Journal

Agnieszka Preś-Perepeczo
Institute of Economics and Finance, University of Szczecin, Mickiewicza 64, 71-101 Szczecin, Poland
corresponding author: agnieszka.pres-perepeczo@usz.edu.pl

What Drives Shareholders' Reaction To CEO Turnovers, Dividend Changes, and Block Trades? A Theoretical Background

Abstract
This study presents a review of theoretical concepts described in the literature that explain how corporate events might be perceived by investors. The theoretical discussion in this paper is related to three corporate events: CEO turnovers, dividend payouts, and block trades. The objective of this analysis is to identify and systemise the theoretical background for the drivers of shareholders' responses to these three corporate decisions. In other words, I will provide answers to the following questions: why is the market reaction sometimes positive and other times negative, and why is it sometimes stronger and other times weaker? Based on the literature review, I will show that each of the analysed corporate events might be perceived by shareholders as either positive or negative signals concerning perspectives and future cash flows. Consequently, corporate events might drive share prices up or down. However, shareholder reaction to one type of the event, such as CEO turnovers, will not always be homogeneous – only positive or negative. The strength of this reaction may also vary. The main reasons for these variations are the effectiveness of corporate governance mechanisms, investors' perceptions of the event, the event's peculiarities, and the company's characteristics, as well as other relevant circumstances and factors.

Keywords
CEO turnovers | dividend changes | block trades | market reaction | theoretical concepts

JEL Codes
G14, G3, M5

1. Introduction

Public companies are obligated to inform investors about key corporate events that might impact their share prices. However, with the separation of ownership and management being characteristic of the modern firm, it is not possible to completely prevent information asymmetry. Without complete information, shareholders perceive a company's announcements as either positive or negative signals concerning its perspectives and expected future cash flows. Consequently, an increase or a decrease in share prices might occur. From the investors' point of view, as well as for the company's executives, knowing how corporate events can affect a company's market value is an important issue. Based on the available information, investors make their investment decisions, and a company's managers focus on maximising shareholder wealth.

Signalling effects are concepts that attempt to explain how disclosed information is perceived by shareholders and how it affects market share prices. The main assumptions are that (1) there is information asymmetry between a company's managers and shareholders, (2) there is the information efficiency of the market, and (3) investors make rational decisions. Signalling effects have been the subject of interest in finance, economics, and management. This term was first used by Spence (1973) in describing a model of signalling on the labour market. He argued that there is an information gap between the hiring entity and an employee, and therefore, an employer cannot assess a candidate's productivity properly (Spence, 1973). The company selects an individual and determines employment terms and salary based on available candidate characteristics.

The development of signalling models in the capital market and corporate finance literature coincided with

this issue. The initial discussions on this topic were related to the dividend policy. Miller and Modigliani (1961) hypothesised that dividend decisions might also be treated as signals concerning expectations of future financial performance that managers send to shareholders. Next, in his signalling theory, Ross (1977) explained how the issue of shares and debts might affect the market share prices.

Each corporate event can impact market share prices. Both theoretical discussions and empirical researches have identified factors that influence the market response to corporate events, including the strength and direction of the market reaction. The signalling effect is a complex phenomenon, as the direction and strength of shareholder reaction to the same corporate event can vary depending on corporate governance mechanisms, investors' perceptions of the event, the event's peculiarities, and the company's characteristics, as well as other relevant circumstances and factors related to the event.

The main goal of this literature review is to identify and systemise the theoretical background concerning the drivers of shareholder reactions. The theoretical discussion is limited to three corporate events (decisions): CEO turnovers, dividend payouts, and block trades. The selection of these events is not random. All of them have a common denominator: they are key decisions for minority shareholders. Dividend payouts are financial decisions, block trades are related to ownership structure and corporate control, and CEO turnovers are personal decisions concerning top management. These corporate events can determine the company's ability to create value for its shareholders. They might also be evaluated by investors in the context of the efficiency of corporate governance mechanisms.

Numerous studies examine the market reaction to corporate events, but there is no investigation (to date) summarising the theoretical issues. This paper is the first comprehensive literature review on theoretical aspects linked to the factors of shareholder reactions to corporate events. The contribution of this study resides in its analysis of theoretical concepts concerning signalling effects, as well as other theories that might indicate drivers of shareholder reactions. This study is expected to add value to the corporate finance, capital market, and corporate governance literature.

The remainder of this paper is structured as follows. Section 2 presents the general theoretical background concerning the main goal of a company as discussed in the literature. In Section 3, theoretical concepts of CEO turnovers are described. Section 4 discusses the signalling effects of dividend decisions. Section 5 presents further theoretical issues concerning block trades. The paper concludes with a brief summary of the study.

2. The general theoretical background

Regarding general theoretical concepts, the basis for explaining the impact of corporate events on investor response can be found in the economics, corporate, and finance literature. According to the concept of *homo oeconomicus* as an economic, rational human being (Gruszecki, 2002, pp. 124-125), and also neoclassical economics, which refers to the monistic concept of the company's purpose representing the ownership perspective, the company's main goal is a profit maximisation (Gruszecki, 2002, p. 248; Jeżak, 2010, pp. 128-143). However, according to neoclassical finance theory, the main objective of the company is not to maximise profit, but to maximise shareholder wealth and the company's market value (Noga, 2009, pp. 114-115). In the case of listed companies, this objective is geared towards the creation of shareholder value. There is a starting point for the theoretical background of signalling effects and the observed phenomenon that some corporate events are viewed by investors positively or negatively.

It should be noted that value-oriented concepts in the corporate finance literature have led to a new paradigm in business management, the so-called value-based management (VBM) (Jaki, 2011a, 2011b). Consequently, corporate theory has adopted market value maximisation as the primary goal of a company's activity. Experiences from the last global financial crisis, observed from 2007-2009, were the impetus for reconstructing the pro-value paradigm. There has been an increasing demand for considering corporate social responsibility (CSR) (Jones, 1980) and changing the definition of a company's objective to maximising stakeholder value, or in other words, creating shared value (Porter & Kramer, 2011, pp. 62-77; Jaki, 2016). This idea has become the theoretical background for a broader perspective, which is the concept of sustainable value-based management as a hybrid of three paradigms: the pro-value paradigm,

sustainable development, and corporate social responsibility (Martin et al., 2009, pp. 106-108; Jaki, 2016). Nowadays, all of these issues are essential to the perception of corporate events by investors on capital markets.

Additionally, from the perspective of corporate finance literature, the primary theoretical background of shareholder reactions to corporate events derives from the agency theory. The main reason for observed market performance following corporate events, such as CEO turnovers, dividend payouts, block trades, and many others, are the separation of ownership and management roles and the existence of information asymmetry in public companies (Jensen & Meckling, 1976). Agency theory is the dominant paradigm related to corporate governance that describes principal-agent conflicts in a company. It also proposes a series of corporate governance mechanisms to reduce information asymmetry, minimise opportunistic managerial behaviours, and align the interests of shareholders and managers. Free cash flow theory (Jensen, 1986) and pecking order theory (Myers, 1984) are other concepts linked to the agency theory that might explain shareholder reactions to corporate events.

Regarding the theoretical concepts concerning capital markets, the efficient market hypothesis was the first to describe market performance in the neoclassical finance theory (Fama, 1970). This construct is based on the assumption that market participants behave rationally. However, the efficient market hypothesis is limited to analysing how quickly share prices adjust to the fundamental value of a company. In contrast, signalling effects are the main concepts that attempt to explain how a company's events and announcements are perceived by investors in the context of expected future cash flows. This phenomenon is also known as the shareholder wealth effect (Fahlenbrach et al., 2010; Sudarsanam & Mahate, 2003).

The market performance, as a consequence of signalling effects, does not always reflect rational investors' decisions as assumed in the neoclassical finance literature. In some simplifications, behavioural finance concepts assume that the capital market is inefficient, and the investors' motivation as well as their psychological inclinations influence market share prices (Gajdka, 2013, p. 25). Prospect theory is one of the most important modifications to the classical paradigm (Kahneman & Tversky, 1979). According to prospect theory, the value function has a different shape for profits and losses. It is generally concave for gains and convex for losses, and steeper for losses than for gains. Therefore, investors prefer profits, but they are far more averse to losses. Prospect theory provides an explanation for an asymmetric response of shareholders to opposite dividend decisions (dividend initiation and omission, or dividend decrease and increase).

As the market may respond to corporate events more strongly or weakly, behavioural finance theory offers other answers to the question of why market share prices deviate from their fundamental values and expected signalling effects. The first of them is the overreaction phenomenon (De Bondt & Thaler, 1985; Howe, 1986; Szyszka, 2009, p. 185). The second one is underreaction and the post-announcement price drift (Foster et al., 1984; Michael et al., 1995; Szyszka, 2009, p. 185). The recognition of overreaction, underreaction, and price drift is impossible in a short signalling window (e.g. a 3-day window). Therefore, to observe these anomalies, the event window has to be extended. Overreaction is most likely to occur when unexpected dramatic news enters the stock market. In the case of a positive signal, share prices may rise rapidly, and we should expect large positive returns. Next, they will be followed by a period of decreasing returns. Similarly, in the case of a negative signal, share prices may fall more than anticipated. First, we will observe large negative returns, and then they will be followed by an increase in returns. However, at other times, investors can slowly assess the impact of an event on the value of a company. As a consequence, a small increase or decrease in share prices will initially be observed following the event. Finally, long after the event, prices will slowly adjust to a company's fundamental value. The first stage of this phenomenon is an underreaction, and the second stage is a post-announcement price drift.

Moreover, there could be another scenario in practice. The changes in share prices may be observed before the company's announcement. In that situation, an increase or decrease in the market value before the event may indicate insider trading and a leakage of information. It is also possible, albeit rarely, that there is no reaction to corporate decisions.

Behavioural finance theory provides additional explanations for market performance anomalies such as overreaction or underreaction. According to Ramiah et al. (2015), in terms of rationality, traders may be classified into information users (rational or information traders) and irrational (noise) trades.

These so-called 'noise traders', as market participants, make investment decisions without the use of finance fundamentals, exhibit poor market timing, follows trends, and tend to overreact or underreact to good and bad news. According to Black (1986), the effect of noise makes it very difficult to test either practical or academic theories about the way that financial markets work. Trueman (1988) argues that the existence of noise trading provides an alternative explanation for why prices in securities markets may not fully reveal informed traders' information.

There is a distinction between neoclassical finance and behavioural finance. In the next sections discussing the drivers of shareholder reactions to corporate events, I will mainly focus on neoclassical finance concepts that assume market participants as rational processors of information.

3. CEO appointment – theoretical concepts

The succession of a key individual has an impact on a company's value and the shareholder wealth effect. The main leader of a company, responsible for achieving its objective, is the Chief Executive Officer (CEO). Therefore, it matters to shareholders who is entrusted with the CEO position. A CEO appointment can significantly affect the value of a company, and shareholder wealth positively or negatively. Theoretical concepts explaining how investors may perceive CEO replacements are interdisciplinary in nature, mainly related to finance, management, and corporate governance literature.

In line with the finance theory, a CEO turnover can significantly affect the value of future cash flows and the combined going concern risk (Byrka-Kita et al., 2018). Investors could assess a CEO turnover in the context of value creation and the shareholder wealth effect. There are several alternative hypotheses. The first assumes that a newly appointed CEO will improve operating performance and generate benefits for shareholders. Therefore, a CEO turnover could be perceived by investors as a significant step towards maximising shareholder wealth. In effect, share prices will increase and we will observe a shareholder positive wealth effect (Davidson et al., 1990). An alternative hypothesis states that a CEO replacement will increase the company's business risk and negatively affect company performance and value. In such a case, shareholders will assess a CEO turnover as a threat to a company's prospects and value creation. As a result, a decline in share prices and a negative wealth effect will occur. The negative shareholder reaction will be an expression of disapproval of the decision made by the supervisory board. However, the investors' negative reaction to a CEO replacement may have another basis. A drop in share prices and a decrease in the shareholder wealth effect would reflect the loss through departure, death, or resignation of a key person (Dedman & Lin, 2002). In this context, circumstances of a key person's replacement, such as the predecessor's death, dismissal, departure, or resignation, are important factors that impact the direction and strength of the market reaction to the event.

In the context of market performance, changes in a company's market value following a replacement of a key person are explained by signalling effects. According to the literature on human resource management, CEO replacements can be an important way for organisations to signal a transition in the firm's strategy (Wiersema & Moliterno, 2006). However, a CEO turnover is not a homogeneous signal. It can be treated by investors as a signal about a company's past as well as its future operating performance. A CEO turnover consists of two overlapping corporate events: a dismissal of a predecessor and an appointment of a new CEO. Consequently, the duality of signalling effects concerning a CEO succession can be observed. The signalling effects of a CEO turnover are described by two alternative hypotheses: the so-called information component and the real component of the signalling effect (Bonnier & Bruner, 1989). First, if a CEO is unexpectedly replaced, then information about the change of a CEO may suggest that the company's performance is worse than originally expected. Under such circumstances, investors react negatively, share prices decrease, and the information component of the signalling effect is noticeable. Second, if investors expect the company to improve because of the replacement of a CEO, then a real component of the signalling effect may be observed and share prices will increase. In the case of CEO appointments, these two signalling effects can appear separately, or both effects can coincide. According to the signalling theory, changes in shareholder wealth associated with CEO turnover can be attributed to an information effect, a real effect, or some combination of the two (Bonnier & Bruner, 1989). Thus, whether a company's share prices rise or fall may depend on which effect dominates the event (Adams & Mansi, 2009).

The theoretical concepts related to appointments to key positions in a company are in line with agency theory and corporate governance principles. Denis and Denis (1995), in their internal monitoring mechanisms hypothesis, argue that an appointment of a CEO by a supervisory board is one of the most important and strongest internal mechanisms of corporate control. The removal of poorly performing CEOs is a critical step towards the maximisation of shareholder wealth. If shareholders perceive a CEO turnover as an effective internal control mechanism, market share prices should increase as a consequence of the event. Otherwise, in the case of ineffective corporate governance mechanisms, a negative shareholder reaction would be observed.

Improvements in operating performance as a consequence of a leadership change are also assumed in other theoretical frameworks. Huson et al. (2004), in their improved management hypothesis, assume that quality, which is not directly observable, varies across managers. If firm performance is sufficiently poor, another manager is appointed as a CEO whose expected quality exceeds that of his ineffective predecessor. A similar explanation is provided by the ability hypothesis (Baik et al., 2011; Chang et al., 2010; Murphy & Zábojník, 2004; Pessarossi & Weill, 2013). An improvement in operating performance and an increase in a company's value will be observed if the most talented CEO candidate is selected by a board. A similar assumption is found in the common-sense hypothesis. Firm operating performance should always improve when an ineffective executive is replaced (Grusky, 1963; Helmich, 1974; Allen et al., 1979; Dalton & Kesner, 1985; Kesner & Sebora, 1994). If shareholders view a CEO replacement from these perspectives, an increase in share prices will occur.

The scapegoat hypothesis completely opposes the three aforementioned concepts. This hypothesis holds, in contrast to the improved management hypothesis, that quality does not vary across managers. Under the scapegoat hypothesis, poor performance arises rather from bad luck than ineffective management. Therefore, even a CEO who is not responsible for poor firm performance will be dismissed. Consequently, a manager who is fired for poor performance is seen as a scapegoat. Since the new CEO is of the same quality as the outgoing executive, the event itself does not increase managerial quality or expected firm performance (Boeker, 1992; Huson et al., 2004; Khanna & Poulsen, 1995). If shareholders perceive the fired CEO as a scapegoat, a drop in share prices will occur. However, a negative market reaction might be explained by another concept, the vicious-circle theory. This hypothesis holds that as an effect of the replacement of a key person, internal business relationships (e.g. with employees) as well as external ones (e.g. with clients and suppliers) will be disturbed. In consequence, the firm's operating performance will deteriorate (Grusky, 1960; Beatty & Zajac, 1987; Ishak & Latif, 2013).

Considering the improved management hypothesis (Huson et al., 2004) and the upper echelons of organisations concept (Hambrick and Mason, 1984), a proxy for the quality of managers can be the personal and professional attributes of a CEO. Therefore, the shareholder reaction to CEO appointments can be driven by executive characteristics. Many potential factors of shareholder response are discussed by the upper echelons theory (Hambrick and Mason, 1984). Hambrick and Mason (1984) argue that strategic choices as well as organisational outcomes are predicted by managerial characteristics such as age, functional background, other career experiences, education, socioeconomic roots, and financial position. In accordance with the upper echelons theory, companies managed by younger managers are more inclined to pursue high-risk strategies and to achieve higher profits and growth than companies managed by older managers. Furthermore, the authors argue that the impact of the manager's functional background on organisational outcomes is unclear, and depends on the type of experience the manager has as well as the external environment of the company.

According to Hambrick and Mason (1984), long-term management by an insider, as an individual that has roots in the company, has a negative effect on new investment projects and company development. This suggests that the outside appointment of an executive might be perceived as more beneficial to stockholders than an internal appointment (Huson et al., 2004). However, Hambrick and Mason (1984) argue that an insider has a positive effect on firm performance and development in a stable environment, while in the period of market turbulence, the opposite effect occurs. Furthermore, the authors state that a manager's formal educational background is an important indicator of the knowledge and skills of top executives. However, there is no direct relationship between the manager's educational background and firm performance and development. Additionally, company profitability is unrelated to the percentage of shares owned by top managers. However, it is instead positively associated

with the percentage of total income that top managers derive from the firm through salaries, bonuses, options, and dividends (Hambrick and Mason, 1984).

The agency theory developed by Jensen and Meckling (1976) posits that managerial ownership is an important part of corporate governance. On the one hand, it reduces agency conflicts in a company; however, on the other hand, it also generates a new risk – managerial entrenchment. In their managerial entrenchment hypothesis, Morck et al. (1988) indicate that stock ownership might be used by managers to defend their position in a company. Specifically, managers with a significant equity stake may have sufficient voting power to ensure a secure position in a company. Denis et al. (1997) report that managerial ownership significantly affects the probability of top-management turnover.

Finkelstein et al. (2009) extend the propositions of the upper echelons theory proposed by Hambrick and Mason (1984). They address psychological characteristics and the personality of managers, as well as other factors that influence organisational outcomes, including an executive's experience and tenure. According to Finkelstein et al. (2009), the successor's past experience as a CEO is an important determinant that influences firm performance. This may be particularly relevant for companies that have to deal with image problems and try to rebuild their position in the market. Furthermore, international experience in a CEO is a highly desired advantage in companies operating in the global market. These executives' experiences and skills could help create new opportunities that lead to improvements in firm performance. Furthermore, according to the extended upper echelons theory, the relationship between top executive's tenure and firm performance is inverted U–shaped. As the length of the top executive's tenure increases, a company's performance improves, but when it exceeds a certain length, any increase in the manager's tenure may negatively impact organisational outcomes .

Referring to the international experience of a CEO, Schmid and Dauth (2014) found that the relationship between abnormal returns as a result of market reaction to CEO appointments and the internationalisation of executives as well as board members has an inverted U-shape. In other words, the international experience of key individuals can have a positive as well as a negative impact on company share prices and abnormal returns, depending on the scale of internationalisation of the top management staff.

The impact of women as members of management and supervisory bodies on decision-making and company's operating performance is also discussed in the literature. Huang and Kisgen (2013) argue that male directors are overconfident, while women are more risk-averse. At the same time, they believe that companies managed by a female CEO create more benefits for their owners.

There is also evidence that some company characteristics are considered as determinants of market reaction. According to Reinganum (1985), small entities' organisational structure is less complicated than large companies. Therefore, a CEO replacement in small companies could significantly improve management quality and firm performance. Consequently, from the shareholders' point of view, it is reasonable to assume that the CEO succession in small companies will have a stronger impact on the shareholder wealth effect. The assumption that a stronger market reaction to a CEO turnover occurs in small companies is also in line with the theoretical concept from Miller and Rock (1985) related to dividend policy and an information asymmetry. They argue that due to the company size, the level of information asymmetry is varied. The highest information asymmetry, and consequently the stronger shareholder reaction, is observed in small rather than in large companies.

The next potential determinant of shareholder reaction is financial condition. The internal monitoring mechanisms hypothesis (Denis & Denis, 1995) is the theoretical concept that may explain the relationship between shareholder reaction and firm operating performance preceding CEO turnovers.

According to Pessarossi & Weill (2013), the ownership structure also affects the market reaction to a CEO appointment. In particular, they argue that state ownership increases share prices as a result of CEO replacements. CEO turnovers are interpreted as a signal of renewed interest of influential officials and, consequently, an improvement in company operating performance. At the same time, shareholders do not perceive a CEO appointment as a new opportunity to extract private benefits of control. However, referring to the expropriation hypothesis (La Porta et al., 2000), this relationship might be a non-linear one (an inverted U-shape). The presence of a large block holder, including the state, might result in an expropriation of minority shareholders by controlling shareholders, and increase the risk of benefiting from control. Hence, if shareholders perceive a CEO

replacement as a decision associated with an increase in private benefits of control, then market share prices will decline.

In summary, the direction and strength of the market reaction to CEO appointments are affected by several factors. There are theoretical concepts that explain how corporate events might be perceived by investors. Table 1 concludes the concepts discussed above and shows an expected impact on shareholder reaction to CEO turnovers.

Table 1. Theoretical concepts and expected impact on shareholder reaction to CEO turnovers

Theoretical concept	
Panel A: Direction of shareholder reaction	*Expected direction*
Shareholder wealth effect (Davidson et al., 1990) Signalling effects: the information component and the real component (Bonnier & Bruner, 1989) Internal monitoring mechanisms hypothesis (Denis & Denis, 1995)	Two alternative hypotheses: Positive reaction Negative reaction
Improved management hypothesis (Huson et al., 2004) Ability hypothesis (Baik et al., 2011; Chang et al., 2010; Murphy & Zábojník, 2004; Pessarossi & Weill, 2013) Common sense hypothesis (Grusky, 1963; Helmich, 1974; Allen et al., 1979; Dalton & Kesner, 1985; Kesner & Sebora, 1994)	Positive reaction
Scapegoat hypothesis (Boeker, 1992; Huson et al., 2004; Khanna & Poulsen, 1995) Vicious-circle theory (Grusky, 1960; Beatty & Zajac, 1987; Ishak & Latif, 2013)	Negative reaction
Panel B: Determinants of shareholder reaction	*Expected impact*
Operating performance	
Signalling effects – the information component (Bonnier & Bruner, 1989)	The company's operating performance before the event is worse than originally expected, the market reaction is negative
Signalling effects – the real component (Bonnier & Bruner, 1989) Internal monitoring mechanisms hypothesis (Denis & Denis, 1995) Improved management hypothesis (Huson et al., 2004) Ability hypothesis (Baik et al., 2011; Chang et al., 2010; Murphy & Zábojník, 2004; Pessarossi & Weill, 2013) Common sense hypothesis (Grusky, 1963; Helmich, 1974; Allen et al., 1979; Dalton & Kesner, 1985; Kesner & Sebora, 1994)	Negative relationship between operating performance before the event and the market reaction Investors expect improvements in operating performance after the event, the market reaction is positive
Company size	
Organizational structure hypothesis Reinganum (1985) Information asymmetry hypothesis (Miller & Rock, 1985)	Negative relationship between company size and the market reaction
Ownership	
State ownership concept (Pessarossi & Weill, 2013)	Positive relationship between state ownership and the market reaction

Continued **Table 1.** Theoretical concepts and expected impact on shareholder reaction to CEO turnovers

Theoretical concept	
Panel B: Determinants of shareholder reaction	*Expected impact*
Expropriation hypothesis (La Porta et al., 2000)	Non-linear inverted U-shape relationship between blockholder ownership and the market reaction
Upper echelons theory – managerial ownership (Hambrick & Mason, 1984)	Non relationship between managerial ownership and the market reaction
Agency theory (Jensen & Meckling, 1976)	Managerial ownership may have a positive or negative impact on the market reaction
Managerial entrenchment hypothesis (Morck et al., 1988; Denis et al., 1997)	Negative relationship between managerial ownership and the market reaction
New-appointed CEO characteristics	
Improved management hypothesis (Huson et al., 2004) Ability hypothesis (Baik et al., 2011; Chang et al., 2010; Murphy & Zábojník, 2004; Pessarossi & Weill, 2013)	A quality of manager (managerial skills) may have a positive impact on the market reaction
Upper echelons theory – age (Hambrick & Mason, 1984)	Negative relationship between CEO age and the market reaction
Upper echelons theory – insider/outsider (Hambrick & Mason, 1984)	Insider/outsider CEO may have a positive or negative impact on the market reaction
Upper echelons theory – educational background (Hambrick & Mason, 1984)	The educational background of a CEO may have a positive or negative impact on the market reaction
Upper echelons theory – functional background (Hambrick & Mason, 1984)	The functional background of a CEO may have a positive or negative impact on the market reaction
CEO international experiences concept (Schmid & Dauth, 2014)	Nonlinear inverted U-shape relationship between international experiences of a CEO and the market reaction
Extended upper echelons theory – international experiences (Finkelstein et al., 2009)	The international experiences of a CEO may have a positive or negative impact on the market reaction
Extended upper echelons theory – past managerial experiences (Finkelstein et al., 2009)	Positive relationship between past managerial experiences of a CEO and the market reaction
Gender risk averse and overconfident hypothesis (Huang & Kisgen, 2013)	The gender of a CEO may have a positive or negative impact on the market reaction
Incumbent CEO characteristics	
Extended upper echelons theory – CEO tenure (Finkelstein et al., 2009)	The length of an incumbent CEO tenure may have a positive or negative impact on the market reaction (non-linear U-shape relationship)
Managerial entrenchment hypothesis (Morck et al., 1988)	Positive relationship between the duration of an incumbent CEO tenure and the market reaction

4. Dividend payout policy – theoretical concepts

The theoretical concepts explaining shareholder reaction to dividend announcements allude mostly to signalling effects and investor preferences. The main three theories are related to investor preferences for dividend yield versus capital gains: (1) the dividend irrelevance theory, (2) the dividend preference theory (also known as the bird-in-hand theory), and (3) the tax effect theory. According to the dividend irrelevance theory, Miller and Modigliani (1961) argue that the value of a firm depends on the income produced by its assets only. It does not matter how this income is split between dividends and retained earnings. Therefore,

dividend policy does not affect market share prices and the cost of capital. According to this concept, shareholders should not react to dividend decisions regardless of their nature. In contrast, the dividend preference theory (the bird-in-hand fallacy) assumes that a stock's risk declines as dividends increase, as a return in the form of dividends is a sure thing, but a return in the form of capital gains is risky one (Gordon, 1959, 1963; Lintner, 1956, 1962). Thus, as investors prefer dividends over capital gains, the dividend policy matters. Consequently, the company should set up a high payout ratio to maximise share prices and minimise a company risk. The third dividend policy theory, the so-called tax effect theory or the tax preference theory, originally assumes lower tax rates on long-term capital gains than on dividends (Litzenberger & Ramaswamy, 1979). As a result of this relationship and its original assumptions, investors prefer lower-taxed capital gains over dividends. Even when dividends and gains are taxed equally, capital gains are never taxed sooner than dividends. Thus, while a company seeks the maximum shareholder value, it should pay low dividends or nothing. The interpretation of these two theories indicates that the same dividend decision (e.g. dividend initiation) could be perceived positively or negatively by shareholders.

The next concept that considers investor preferences is the clientele effect (Miller & Modigliani, 1961). According to this concept, different groups (clientele and stockholders) prefer dissimilar payout policies. As shareholders are not a homogeneous group, companies may attract those investors who accept their dividend policy. Due to the interest of this particular group of investors, share prices will increase or decrease following announced changes in dividend policy, respectively.

A similar rationale is proposed by the catering theory of dividend payout policy (Baker and Wurgler, 2004), representing the behavioural finance approach. The catering theory explains why companies split an income between dividends and retained earnings. The main factors shaping companies' dividend decisions are investors' preferences based on sentiment rather than rational actions. The catering theory of dividends developed by Baker and Wurgler (2004) argues that managers will opportunistically modify corporate payout policies when investor sentiment favours the payment of dividends. Hence, a company pays dividends sequentially when the market rewards a higher stock prices. It does not pay dividends when investors conversely do not want them (lower stock prices). In addition, there are a number of other behavioural finance concepts that provide a theoretical background explaining the relationship between the changes payout policy and the market share prices. The prospect theory previously mentioned in Section 1 is among them (Kahneman & Tversky, 1979). According to this theory, an investor's perception of dividend decisions may be a consequence of their greater risk aversion rather than their preference for potential returns. In practice, it manifests itself that a shareholder's response to dividend decisions is asymmetric. The shareholder reaction to the dividend omission (dividend decrease) will be negative and stronger than in the case of the positive and weaker investors' response to the dividend initiation (dividend increase).

The second group of theoretical concepts concerning dividend decisions is classified in terms of the implications for company perspectives and future cash flows. The informational content of dividends hypothesis (Watts, 1973) refers to the signalling effect. In the literature, it is also called as the signalling content hypothesis or the signalling hypothesis. In line with the signalling effect, the dividend decision is a signal sent by a company to investors concerning the expected profits. An dividend increase higher than originally expected is a signal to investors that the firm's top management forecasts higher profits in the future. As a result, there will be an increase in market prices. Conversely, a dividend reduction is a signal that top executives forecast poor future operating performance. Consequently, a dividend cut or omission will be reflected as a fall in share prices and a negative signal concerning lower profits. Investors know that companies are only willing to cut or raise dividends if they anticipate lower or higher earnings in the future. There is clearly some information content in dividend announcements. Market share prices tend to fall when dividends are cut, and tend to rise when dividends are increased. However, it is sometimes difficult to tell whether stock price movements following a change in dividend policy reflect only signalling effects or reflect both signalling and dividend preferences.

Similarly, as in the case of CEO appointments, the direction as well as the strength of the market reaction to a change in dividend policy might be affected by several factors. One of them is the company's financial condition, especially its operating performance. The information content of dividends explains the positive relationship between the market reaction to dividend announcements and company operating.

However, according to Bulan (2010), the market reaction is proportional to the power of surprise. It becomes stronger when investors are caught off guard by a change in dividend policy contrary to their initial expectations based on the preceding operating performance.

In addition to the theories listed above, there are other concepts raised in the literature that explain why companies do pay, do not pay, and should pay dividends. One of them refers to a company's life cycle and is associated with investment and financing opportunities (Mueller, 1972). From the perspective of investors aware of the relationship between payout policy and the company's life cycle, a change in dividend payouts can be interpreted as a negative or positive signal that results in an increase or decrease in stock prices, respectively. Mature and large companies generally have lower investment opportunities and financing needs. They also generate surplus cash flows. Therefore, shareholders will react much more strongly to a dividend cut in a mature firm as a signal of the worsening of the company's prospects than in the case of one that is small, growing, and out of cash. Indirectly, a company's life cycle also provides an explanation for the impact of the company size on shareholder reaction to dividend decisions. However, this relationship is mainly related to information asymmetry. According to Miller and Rock (1985), the market response to dividend announcements varies due to different degrees of information asymmetry and company size. As a rule, the higher degree of information asymmetry exists in small companies, and lower information asymmetry occurs in the biggest corporations. Therefore, dividend decisions are characterised by stronger signalling effects in small companies than in the biggest ones. The size of the company is frequently used in empirical studies as a proxy for the degree of information asymmetry.

The pecking order theory also justifies the market reaction to dividend decisions (Myers, 1984). According to this concept, in the face of a lack of internal financing resources, companies should not rapidly introduce changes in dividend payouts, as accompanying signalling effects may negatively affect share prices and increase information costs. First, companies should adapt their target dividend payout ratios to their investment opportunities that can be met by internally generated funds. However, as investment opportunities may fluctuate relative to internal cash flows, companies should resort to debt financing and only reach for equity funding as the last option to avoid negative consequences and maintain the existing dividend policy. The idea of the pecking order of financing sources enables a company to cover dividend payouts and avoid other subsequent signalling effects described by Ross (1977) in his signalling theory. According to Ross (1977), a company that raises funds by issuing shares signals that top managers expect lower cash flows in the future. In contrast, a decision to increase debt is perceived positively by investors as a signal that the company's managers expect an increase in future cash flows that will enable to service a new debt.

In summary, the pecking order theory of Myers (1984) and the signalling theory of Ross (1977) provide the theoretical background for explaining the impact of company leverage, as a proxy of firm financial risk, on shareholder reaction to dividend changes. This relationship depends on the type of dividend decision. Generally, in the case of higher company leverage, the market will respond more strongly to dividend changes, reacting positively to dividend initiations and increases and negatively to dividend omissions and reductions.

There are other theoretical concepts that do not directly address signalling effects or shareholder preferences, but they do provide an explanation for why shareholders might respond negatively or positively to changes in dividend payouts. The main idea of signalling effects has its origin in the agency theory, particularly in the free cash flow theory (Jensen, 1986). According to this concept, a dividend is an instrument that reduces agency conflicts in a company – the principal-agent as well as principal-principal conflicts. Furthermore, the payment of dividends reduces potential agency costs and stimulates top managers to create the shareholder value. In this context, the dividend policy is an important mechanism of corporate governance that limits overinvestments and wasteful uses of cash, stimulating the company's executives for rational decision-making and increasing shareholder wealth. Furthermore, agency theory offers other theoretical concepts, including the private benefits of control and the entrenchment hypothesis. They explain an impact of ownership structure and the presence of a block holder on the market reaction to dividend changes.

Besides the aforementioned factors of market performance following dividend changes, there are several other determinants explored in the literature. According to Below and Johnson (1996), the market business cycle may increase or decrease shareholder

reaction to dividend decision. In the bear market, dividend initiation (increase) will be perceived by shareholders more positively than in the bull market. In the case of dividend omission (reduction), the relationship is the opposite; the market reaction to negative signals is stronger in the bull market. Dividend yields are the next factor considered in research papers. Pettit (1972) argues that the greater changes in dividend yield stronger signalling effects of dividend announcements.

Finally, it is worth adding that the dividend policy is the subject of interest in the context of stock liquidity and companies' propensity to pay dividends. Based on empirical results, Banerjee et al. (2007) formulated a liquidity hypothesis of dividends that was opposite to the informational effect of stock liquidity on dividend payouts described by Jiang et al. (2017). According to Banerjee et al. (2007), the liquidity of stocks is an important determinant of initiations and omissions. As investors view stock market liquidity and dividends as substitutes, companies with more liquid stocks are less likely to initiate or continue paying dividends. Therefore, in illiquid capital markets, investors will have increased demand for cash dividends. Conversely, in highly liquid stock markets, they can easily and cheaply create homemade dividends. Therefore, according to this concept, we should expect lower signalling effects of dividend decisions in the case of highly liquid stocks. According to the second conception, the informational effect of stock liquidity on dividend payments, when the information environment is opaque, and when the conflict between controlling shareholders and minority investors is severe, stock liquidity may reduce information asymmetry, mitigating the principal-principal conflict while increasing the propensity of companies to pay dividends (Jiang et al., 2017).

In conclusion, the direction and strength of the market reaction to changes in dividend policy is affected by the type of event and other several factors. Several theoretical concepts explain how investors may perceive dividend decisions, including dividend initiation, omission, increase, and decrease. Table 2 summarises the above-discussed concepts and their expected impact on shareholder reaction to dividend events.

5. Block trades – theoretical concepts

A block transaction, as the first step towards the acquisition of a company, may raise agency problems. The theoretical concepts discussed in the literature

Table 2. Theoretical concepts and expected impact on shareholder reaction to changes in dividend policy (dividend initiation, omission, decrease, and increase)

Theoretical concept	
Panel A: Direction of shareholder reaction	*Expected direction*
Dividend irrelevance theory (Miller & Modigliani, 1961)	Non effect on share prices
Dividend preference theory ('bird-in-hand fallacy') (Gordon, 1959, 1963; Lintner, 1956, 1962)	Positive reaction to dividend initiation and increase Negative reaction to dividend omission and decrease
Tax effect theory (Litzenberger & Ramaswamy, 1979)	Positive reaction to dividend omission and decrease Negative reaction to dividend initiation and increase
Clientele effect (Miller & Modigliani, 1961)	Two alternative hypotheses: Positive or negative reaction to changes in dividend payouts
Catering theory of dividends (Baker & Wurgler, 2004)	Two alternative hypotheses: Positive reaction or negative to changes in dividend payouts
Information content hypothesis (signalling content) (Watts, 1973)	Positive reaction to dividend initiation and increase Negative reaction to dividend omission and decrease
Pecking order theory (Myers, 1984)	Positive reaction to dividend initiation and increase Negative reaction to dividend omission and decrease
Prospect theory (Kahneman & Tversky, 1979)	Shareholder reaction to dividend omission (dividend decrease) is negative and stronger than investors' response to dividend initiation (dividend increase)

Continued **Table 2.** Theoretical concepts and expected impact on shareholder reaction to changes in dividend policy (dividend initiation, omission, decrease, and increase)

Theoretical concept	
Panel B: Determinants of shareholder reaction	*Expected impact*
Company operating performance	
Signalling effects – the information component (Bonnier & Bruner, 1989)	Positive relationship between the company's operating performance and the market reaction
Company investment opportunities	
Company's life cycle concept (Mueller, 1972) Free cash flow theory (Jensen, 1986)	The lower investment opportunities, the stronger positive market reaction to dividend initiation (increase) The lower investment opportunities, the weaker negative market reaction to dividend omission (decrease)
Company leverage	
Pecking order theory (Myers, 1984)	The higher company leverage, the stronger positive market reaction to dividend initiation and increase The higher company leverage, the stronger negative market reaction to dividend omission and decrease
Company life cycle	
Company's life cycle concept (Mueller, 1972)	The lower stage of company's life cycle, the stronger positive market reaction to dividend initiation (increase) The higher stage of company's life cycle, the stronger negative market reaction to dividend omission (decrease)
Company size	
Information asymmetry hypothesis (Miller & Rock, 1985)	A stronger signalling effect in the small company than in the biggest one
Company ownership structure	
Agency theory (Jensen & Meckling, 1976) Free cash flow theory (Jensen, 1986) Entrenchment hypothesis and private benefits of control	There are several hypotheses. The ownership structure (concentrated and dispersed) may have an impact on the market reaction to dividend omission (decrease).
Market business cycle Market cycle concept (Below & Johnson, 1996)	The worse market performance the stronger positive market reaction to dividend initiation (increase) The better market performance the stronger negative market reaction to dividend omission (decrease)
Dividend yield Dividend yield concept (Pettit, 1992)	The greater change in dividend yield, the stronger signalling effects of dividend decision
Stock liquidity Informational effect of stock liquidity (Banerjee et al., 2007)	The highly liquid stocks, the lower signalling effects of dividend decisions.

mainly focus on the effectiveness of corporate governance mechanisms, and they can be grouped as follows: (1) related to the shareholder wealth effect, (2) addressing motives for monitoring companies, (3) considering the relationship between company characteristics and limiting private benefits of control, (4) describing signalling effects, and (5) other concepts.

According to the shareholder wealth effect, a block trade and becoming a dominant block holder that gets a control and influences many key corporate decisions could have two opposing effects. First, according to the restructuring hypothesis, an acquirer of a significant block of shares could be seen by minority shareholders as an active investor involved in the company's affairs

(Shleifer & Vishny, 1986). A new, large block holder may improve corporate management as a superior controller and manager. As a result of a block trade, share prices rise, boosting market value and increasing shareholder benefits. Second, a new large block holder might be perceived by shareholders as one that uses its position of power to protect its company while ignoring the interests of minority shareholders. Hence, share prices will decrease if investors believe that a block transaction is such a negative signal. This phenomenon is clarified by the wealth expropriation hypothesis and the concept of private benefits of control as a crucial part of the agency theory (Dyck & Zingales, 2004). Additionally, it is worth adding that an expropriation of minority shareholders might be a consequence of an entrenchment effect of a dominant shareholder (Claessens et al., 2002).

The following theoretical concept offers some potential determinants of shareholder reactions to block trades. The monitoring incentive hypothesis (Dyck & Zingales, 2004; Barak & Lauterbach, 2012) assumes that monitoring activities taken by company stakeholders can significantly reduce private profiteering and expropriation of minority shareholders. According to Dyck and Zingales (2004), the impact on monitoring actions and curbing of private benefits of control have controlling shareholders as well as legal institutions, including the legal environment, disclosure standards and enforcement. Dyck and Zingales (2004) also propose so-called extra-legal institutions (e.g. product market competition, public opinion pressure, internal policing through moral norms and labour as monitor, and government as monitor through tax enforcement) that may play an important role in constraining private benefits.

Barak and Lauterbach (2012) propose three main monitoring devices, three groups of external actors who become involved in the company's affairs: debtholder monitoring, institutional investors, and outside directors on the firm's board (directors who do not belong to the control group). The essence of the firm's monitoring by debtholders is similar to the free cash flow theory (Jensen, 1986). For example, banks having plenty of timely information on firm's business may resist the extraction of private benefits that will destabilise the firm or endanger the bank's debt. Institutional investors might protect the interests of small investors and fight against abnormal private benefits. However, according to Barak and Lauterbach (2012), it is unclear how influential institutional investors are vis-a-vis controlling shareholders in closely held firms. Since the year 2002 and the introduction of the Sarbanes-Oxley Act in the US, increasing the proportion of outside directors on the board has been one of the instruments for mitigating agency problems in the company (Larcker & Tayan, 2016).

There is another concept proposed in the agency theory that concerns monitoring mechanisms and managers. Jensen and Meckling (1976) state that if managers hold a percentage of the company's shares, they will begin to act in the interests of shareholders. The accompanying high managerial responsibility will be a mechanism that may reduce the extraction of private benefits by the dominant shareholder. Hence, a managerial ownership is one of the corporate governance mechanisms that may reduce agency problems in the company.

Moreover, according to Barak and Lauterbach (2012), private benefits extraction may also depend on several firm characteristics, particularly size, risk, profitability, and ownership structure. As the influence of firm characteristics can be twofold, there are several alternative hypotheses. In the case of the company size, on one hand, it is more difficult to monitor larger and multi-business firms, so the private benefits extraction can exist in these firms and be higher than in small companies. On the other hand, larger companies, especially those listed on stock exchanges, are characterised by lower information asymmetry. There are more intensive regulatory, analysts, and media publications, which should discourage controlling shareholders from the transferring of private benefits and at least reduce the proportion of private benefits extraction in large companies. Regarding firm risk, its high level may indeed complicate monitoring and facilitate the camouflaging of private benefits consumption by controlling shareholders. However, at the same time, block holders may also be cautious and limit the extraction of private benefits in order not to destabilise the company. The company profitability (e.g. return on assets) is the next factor that may impact monitoring mechanisms. As in the case of company size and risk, the correlation between profitability and the extraction of private benefits of control is arguable. The high level of profitability may tempt controlling shareholders to increase the consumption of private benefits. However, at the same time, its high level may reflect the low extraction of private benefits.

The last factor that could influence the level of private benefits consumption is the ownership structure, considered as several variables. The first variable that might affect the intensity of private

benefits is the ownership concertation and the percentage vote of the control group. The concentrated ownership structure can be beneficial for shareholder value creation when the block holder plays the role of a monitor. However, the concentrated ownership structure also creates agency conflicts between majority and minority shareholders. According to Barak and Lauterbach (2012), as the proportion of firm votes held by controlling shareholders increases, they possess more power to exploit the firm. At the same time, they have less motivation to do so, because (when their percentage in vote equals their percentage in equity) every dollar they transfer out of the firm costs them more. The next important variable is the control group structure. When the company's control is in the hands of a single person or family, the control group is more cohesive and more willing to cooperate in extracting private benefits in comparison with firms that are controlled by several business partners. Another ownership variable is the pyramid structure of companies. It also may lead to potentially higher consumption of private benefits by controlling group of shareholders as they have a higher proportion of firm votes held and possess more power. According to Barak and Lauterbach (2012), higher private benefits are in firms at the bottom of the pyramid. Moreover, it is noteworthy that dual-class share financing also results in a disconnect between controlling shareholders' percentages in votes and in equity, consequently increasing private benefits consumption.

According to agency theory and asymmetric information, not only managers but also block holders have access to more information on their company's condition, value, and investment opportunities than other market players. This observed phenomenon refers to block trades and their signalling effect. The signalling effect of block trades is a complex phenomenon as it examines the following trade characteristics: a block price, an initiating party (an originator), a block size, and trading parties. In their superior information hypothesis, Barclay and Holderness (1989) assume that a block price (premiums or discounts) reflects the superior information about firm value. Blocks are traded at a discount when a large block holder is willing to liquidate its shares for a lower price than the market value. Block transfers signal that the company prospects are poor. Conversely, transactions concluded at a premium signal that a block buyer possesses undisclosed information about the company's positive prospects.

Many authors in the theoretical as well as the empirical studies provide evidence that the information effect depends on whether block trades are initiated by a buyer or a seller. In his information hypothesis, Scholes (1972) states that when block trades are initiated by the seller, we will observe the decrease in the share price. A controlling shareholder sells his block of shares due to having unfavourable information about company prospects. Close (1975) called this phenomenon the information effect. This argumentation of the information effect is consistent with the concept proposed by Holthausen et al. (1987). The sale of a large block suggests that the seller believes that stocks are overvalued, while the purchase of a block signals that the buyer believes that stocks are undervalued. However, Chan and Lakonishok (1993), examining the effects of institutional trading on stock prices, point out that there are the other reasons that justify the sale of the large block of stocks. Institutional trades could be an exit from investment, as stocks that are sold may already have met the portfolio's objectives of block seller. Furthermore, the exit of institutional investors may signal that the large block holder is dissatisfied with the company's performance compared to expectations. This rationale is consistent with the concept of McCahery et al. (2016). They highlight two active choices that institutional investors have when they become unhappy with a firm: they can leave the firm by selling shares ('exiting' or 'voting with their feet') or they can engage with management to try to institute change ('voice' or direct intervention).

Moreover, according to Scholes (1972), the information effect depends on the identity of a buyer or a seller, because some categories of investors, such as officers and directors of corporations, are more likely to possess private information. Bozcuk and Lasfer (2005) argue that a block purchase by an institutional investor, reflecting the private information held by the investor, is a positive signal that results in an increase in share prices. In contrast, a sale of a large block by a controlling shareholder, signalling bad news about the firm's prospects, will result in a negative market reaction.

The size of the block transaction is the next proxy for the amount of information that traders have about a company's expected performance in the future. According to Scholes (1972), the signalling effects observed are mainly a consequence of the sale of a large block of shares, which leads to a permanent reduction in the market value of a company. As a result of information contained in large-block trades, we will observe a higher decrease in share prices.

In contrast, selling a small block of stocks that play the role of an instrument diversifying an investment portfolio has little effect on market price changes. Ball and Finn (1989) argue that a block size is a factor that signals the amount of information that a buyer and a seller have –positive and negative, respectively.

The theoretical concepts and hypotheses described above do not exhaust the considerations that explain share price changes following block trades. There are other concepts discussed in the finance literature. Scholes (1972), besides the information hypothesis, formulated the price-pressure hypothesis and the substitution hypothesis. Kraus and Stoll (1972) proposed the distribution hypothesis due to short-term liquidity costs, as did Close (1975) with the liquidity effect concept. Based on similar deliberations, Ball and Finn (1989) formulated further hypotheses: the segmented market hypothesis (known as the price pressure hypothesis), the competitive market (substitution) hypothesis, and the short-run liquidity costs hypothesis. These theoretical concepts explain the changes in share prices in the term of market efficiency, the price equilibrium, the speed of price adjustments following information disclosures, and the existence of permanent and temporary effects.

In summary, there are theoretical concepts that explain how block transactions might be perceived by investors. The direction as well as the strength of the market reaction to block trades is affected by several factors. Table 3 concludes the concepts discussed above and shows the expected impact on shareholder reaction to block trades.

Table 3. Theoretical concepts and expected impact on shareholder reaction to block trades

Theoretical concept	
Panel A: Direction of shareholder reaction	*Expected direction*
Shareholder wealth effect: Restructuring hypothesis (Shleifer & Vishny, 1986)	Positive reaction
Shareholder wealth effect: Wealth expropriation hypothesis and private benefits of control (Dyck & Zingales, 2004) Entrenchment effect (Claessens et al., 2002)	Negative reaction
Signalling effects: Superior information hypothesis (Barclay & Holderness, 1989)	Two alternative hypotheses: Positive reaction Negative reaction
Panel B: Determinants of shareholder reaction	*Expected impact*
Share price	
Signalling effects: Superior information hypothesis (Barclay & Holderness, 1989)	Two alternative hypotheses: Blocks traded at a premium, the market reaction is positive Blocks traded at a discount, the market reaction is negative
Initiating party (by a buyer/seller)	
Signalling effects: Information effect (Close, 1975; Holthausen et al., 1987)	Two alternative hypotheses: Blocks initiated by a buyer, the market reaction is positive Blocks initiated by a seller, the market reaction is negative
Identity of a buyer/seller	
Signalling effects: Information effect Scholes, 1972; Bozcuk & Lasfer, 2005)	Two alternative hypotheses: A block purchase by an institutional investor, the market reaction is positive A block sale by a controlling shareholder, the market reaction is negative
Block size	
Signalling effects: Information effect (Scholes, 1972; Ball & Finn, 1989)	Two alternative hypotheses: A purchase of a large block, the market reaction is positive A sale of a large block, the market reaction is negative

Continued **Table 3.** Theoretical concepts and expected impact on shareholder reaction to block trades

Theoretical concept	
Outside directors on board	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Positive relationship between the presence of outside directors and the market reaction
Debtholders	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012) Free cash flow theory (Jensen, 1986)	Positive relationship between a presence of debtholders and the market reaction
Monitoring institutional investor	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Positive relationship between the presence of institutional investor and the market reaction
Legal institutions (e.g., legal environment, disclosure standards and enforcement)	
Monitoring incentive hypothesis (Dyck & Zingales, 2004)	The more efficient legal institutions, the higher market reaction
Extra-legal institutions (e.g., product market competition, public opinion pressure, internal policing through moral norms and labour as monitor, government as monitor through tax enforcement)	
Monitoring incentive hypothesis (Dyck & Zingales, 2004)	The more efficient extra-legal institutions, the higher market reaction
Managerial ownership	
Agency theory (Jensen & Meckling, 1976)	Positive relationship between a managerial ownership and the market reaction
Company size	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Two alternative hypotheses: Negative (positive) relationship between company size and the market reaction
Company profitability	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Two alternative hypotheses: Negative (positive) relationship between company profitability and the market reaction
Company risk	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Two alternative hypotheses: Negative (positive) relationship between company risk and the market reaction
Company ownership structure (concentrated structure)	
Monitoring incentive hypothesis (Barak & Lauterbach, 2012)	Two alternative hypotheses: Negative (positive) relationship between ownership structure risk and the market reaction

6. Conclusions

Financial economists have presented and tested several possible explanations for the market announcement effects of corporate events such as CEO turnovers, dividend payments, and block trades. The signalling hypothesis has been widely accepted as the leading theoretical background. However, many authors propose alternative hypotheses, and there is no ambiguity in the concepts proposed in the literature. Each corporate event, depending on how it is perceived by shareholders, might be interpreted

as a positive or negative signal for the company's prospects. This duality is particularly noticeable in the case of a CEO replacement with two components of the signalling effect: an information component and a real component. Similarly, a block trade, as a partial takeover of a company control, might be perceived by investors as a threat or as a potential driver of the shareholder value creation. In the case of dividend payments and signalling effects, the duality of shareholders' perception does not seem to exist. However, taking into account dividend policy theories as well as the clientele effect concept that considers investors' preferences, we should expect that the same-directed dividend decision might result in a positive as well as a negative shareholder response. Moreover, according to theoretical concepts, the market reaction to corporate events and changes in share prices may become weaker or stronger still, due to characteristics of events, company characteristics, and other relevant circumstances and factors.

In addition, an important point concerning event studies should be noted. Nowadays, the proposed theoretical background explaining the relationships between corporate events and the market response might be distorted by several newly existing circumstances. Specifically, the development of high-frequency trading (HFT) and new technologies may affect stock market efficiency and drive price volatility. Furthermore, the expansion of social media activity may also lead to share price changes. In practice, it may be impossible to isolate the pure market reaction to corporate events.

In conclusion, this study offers several practical implications that might be helpful to investors, companies' boards of directors, and institutions that oversee the financial system. Understanding how corporate events and their characteristics affect share prices can aid investors in making capital allocation decisions, company executives in managing company value, and financial oversight institutions in examining share transactions on the stock market. The theoretical discussion presented in this study can serve as a starting point for future research exploring the impact of corporate events on shareholder value creation.

References

Adams, J. C., & Mansi, S. (2009). CEO turnover and bondholder wealth. *Journal of Banking and Finance, 33*(3), 522–533. https://doi.org/10.1016/j.jbankfin.2008.09.005

Allen, M., Panian, S., & Lotz, R. (1979). Managerial succession and organizational performance: a recalcitrant problem revisited. *Administrative Science Quarterly, 24*(2), 167–180. https://doi.org/10.2307/2392492

Baik, B. O. K., Farber, D. B., & Lee, S. S. (2011). CEO ability and management earnings forecasts. *Contemporary Accounting Research, 28*(5), 1645–1668. https://doi.org/10.1111/j.1911-3846.2011.01091.x

Baker, M., & Wurgler, J. (2004). A catering theory of dividends. *Journal of Finance, 59*(3), 1125–1165. https://doi.org/10.1111/j.1540-6261.2004.00658.x

Ball, R., & Finn, F. (1989). The effect of block transactions on share prices: Australian evidence. *Journal of Banking and Finance, 13*(3), 397–419. https://doi.org/10.1016/0378-4266(89)90050-2

Banerjee, S., Gatchev, V. A., & Spindt, P. A. (2007). Stock market liquidity and firm dividend policy. *Journal of Financial and Quantitative Analysis, 42*(2), 369–397. https://doi.org/10.1017/S0022109000003318

Barak, R., & Lauterbach, B. (2012). Firm-specific factors affecting the private benefits of control in concentrated ownership economies. In S.P Ferris, K. John, A.K. Makhija (Ed.), *Advances in Financial Economics (Advances in Financial Economics, Vol. 15),* Emerald Group Publishing Limited, Bingley, 59–77. https://ssrn.com/abstract=2352869

Barclay, M. J., & Holderness, C. G. (1989). Private benefits from control of public corporations. *Journal of Financial Economics, 25*(2), 371–395. https://doi.org/10.1016/0304-405X(89)90088-3

Beatty, R. P., & Zajac, E. J. (1987). CEO change and firm performance in large corporations: *Succession effects and manager effects. Strategic Management Journal, 8*(4), 305–317. https://doi.org/10.1002/smj.4250080402

Below, S. D., & Johnson, K. H. (1996). An analysis of shareholder reaction to dividend announcements in bull and bear markets. *Journal of Financial and Strategic Decisions, 9*(3), 15–26. https://www.financialdecisionsonline.org/archive/pdffiles/v09n3/below.pdf

Black, F. (1986). Noise. *Journal of Finance, 41*(3), 529–543. https://doi.org/10.1111/j.1540-6261.1986.tb04513.x

Boeker, W. (1992). Power and managerial dismissal: Scapegoating at the top. *Administrative Science Quarterly, 37*(3), 400–421. https://doi.org/10.2307/2393450

Bonnier, K., & Bruner, R. (1989). An analysis of stock price reaction to management change in distressed firms. *Journal of Accounting and Economics, 11*(1), 95–106. https://doi.org/10.1016/0165-4101(89)90015-3

Bozcuk, A., & Lasfer, M. A. (2005). The information content of institutional trades on the London Stock Exchange. *Journal of Financial and Quantitative Analysis, 40*(3). 621–644. https://doi.org/10.1017/S0022109000001897

Bulan, L. T. (2010). To cut or not to cut a dividend. https://ssrn.com/abstract=1712019

Byrka-Kita, K., Czerwiński, M., Preś-Perepeczo, A., & Wiśniewski, T. (2018). CEO succession puzzle in the Polish capital market. *Baltic Journal of Management,* 13(4), 582-604. https://doi.org/10.1108/BJM-08-2017-0238

Chang, Y.Y., Dasgupta, S., & Hilary, G. (2010). CEO ability, pay, and firm performance. *Management Science, 56*(10), 1633–1652. https://doi.org/10.1287/mnsc.1100.1205

Claessens, S., Djankov, S., Fan, J. P. H., & Lang, H. P. (2002). Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance, 57*(6), 2741–2771. https://doi.org/10.1111/1540-6261.00511

Close, N. (1975). Price reactions to large transactions in the Canadian equity markets. *Financial Analysts Journal, 31*(6), 50–57. https://doi.org/10.2469/faj.v31.n6.50

Dalton, D. R., & Kesner, I. F. (1985). Organizational performance as an antecedent of inside/outside chief executive succession: An empirical assessment. *Academy of Management Journal, 28*(4), 749–762. https://www.jstor.org/stable/256235

Davidson, W. N., Worrell, D. L., & Cheng, L. (1990). Key executive succession and stockholder wealth: The influence of successors origin, position, and age. *Journal of Management, 16*(3), 647–664. https://doi.org/10.1177/014920639001600309

De Bondt, W. F. M., & Thaler, R. H. (1985). Does the stock market overreact? *Journal of Finance, 40*(3), 793-808. https://doi.org/10.1111/j.1540-6261.1985.tb05004.x

Dedman, E., & Lin, S. W. J. (2002). Shareholder wealth effects of CEO departures: Evidence from the UK. *Journal of Corporate Finance, 8*(1), 81–104. https://doi.org/10.1016/S0929-1199(01)00027-X

Denis, D. J., & Denis, D. K. (1995). Firm performance changes following top management dismissals. *Journal of Finance, 50*(4), 1029–1057. https://doi.org/10.1111/j.1540-6261.1995.tb04049.x

Denis, D. J., Denis, D. K., & Sarin, A. (1997). Ownership structure and top executive turnover. *Journal of Financial Economics, 45*(2), 193–221. https://doi.org/10.1016/S0304-405X(97)00016-0

Dyck, A., & Zingales, L. (2004). Private benefits of control: an international comparison. *Journal of Finance, 59*(2), 537–600. https://doi.org/10.1111/j.1540-6261.2004.00642.x

Fahlenbrach, R., Low, A., & Stulz, R. M. (2010). Why do firms appoint CEOs as outside directors? *Journal of Financial Economics, 97*(1), 12–32. https://doi.org/10.1016/j.jfineco.2010.01.003

Fama, E.F. (1970). Efficient capital market: A review of the theory and empirical work. *Journal of Finance, 25*(2), 388–417. https://doi.org/10.1111/j.1540-6261.1970.tb00518.x

Finkelstein, S., Hambrick, D. C., & Canella, B. (2009). Strategic leadership: Theory and research on executives, top management teams, and boards. Oxford: Oxford University Press.

Foster, G., Olsen, C., & Shevlin, T. (1984). Earnings releases, anomalies, and the behavior of security returns. *Accounting Review, 59*(4), 574–603. https://www.jstor.org/stable/247321

Gajdka, J. (2013). Behawioralne finanse przedsiębiorstw. Podstawowe podejścia i koncepcje. [Behavioral corporate finance. Fundamental approaches and concepts]. Łódź: Wydawnictwo Uniwersytetu Łódzkiego.

Gordon, M. J. (1959). Dividends, earnings, and stock prices. *Review of Economics and Statistics, 41*(2), Part 1, 99–105. https://doi.org/10.2307/1927792

Gordon, M. J. (1963). Optimal investment and financing policy. *Journal of Finance, 18*(2), 264–272. https://doi.org/10.1111/j.1540-6261.1963.tb00722.x

Grusky, O. (1960). Administrative succession in formal organizations. *Social Forces, 39*(2), 105–115. https://doi.org/10.2307/2574148

Grusky, O. (1963). Managerial succession and organizational effectiveness. *American Journal of Sociology, 69*(1), 21–31. https://www.jstor.org/stable/2775308

Gruszecki, T. (2002). Współczesne teorie przedsiębiorstwa. [Modern enterprise theories]. Warszawa: Wydawnictwo Naukowe PWN.

Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review, 9*(2), 193–206. https://doi.org/10.2307/258434

Helmich, D. L. (1974). Organizational growth and succession patterns. *Academy of Management Journal, 17*(4), 771–775. https://www.jstor.org/stable/255654

Holthausen, R. W., Leftwich, R. W., & Mayers, D. (1987). The effect of large block transactions on security prices: A cross-sectional analysis. *Journal of Financial Economics, 19*(2), 237–267. https://doi.org/10.1016/0304-405X(87)90004-3

Howe, J. S. (1986). Evidence on stock market overreaction. *Financial Analyst Journal, 42*(4), 74-77. https://doi.org/10.2469/faj.v42.n4.74

Huang, J., & Kisgen, D. (2013). Gender and corporate finance: Are male executives overconfident relative to female executives? *Journal of Financial Economics, 108*(3), 822–839. https://doi.org/10.1016/j.jfineco.2012.12.005

Huson, M. R., Malatesta, P. H., & Parrino, R. (2004). Managerial succession and firm performance. *Journal of Financial Economics, 74*(2), 237–275. https://doi.org/10.1016/j.jfineco.2003.08.002

Ishak, R., & Latif, R. (2013). CEO succession: Is it good or bad news? In *Proceedings of 7th Global Business and Social Science Research Conference*, Beijing, China, 1–18. https://nanopdf.com/download/proceedings-of-7th-global-business-and-social-science-research-conference-5b170e2ae761d_pdf#

Jaki, A. (2011a). Imperatyw kreowania wartości a teorie przedsiębiorstwa. [The imperative of creating value and enterprise theories]. *Kwartalnik Nauk o Przedsiębiorstwie, 19*(2), 24–31. https://econjournals.sgh.waw.pl/KNoP/article/view/2099

Jaki, A. (2011b). Orientacja na wartość w zarządzaniu przedsiębiorstwem. [Value orientation in corporate management]. *Przegląd Organizacji, 9, 13–16*. https://przegladorganizacji.pl/artykul/2011/10.33141po.2011.09.04

Jaki, A. (2016). Prowartościowy paradygmat i koncepcja zarządzania wartością – mechanizmy i obszary ewolucji. [Pro-value paradigm and value based management concept – mechanisms and areas of the evolution]. *Przegląd Organizacji, 1*(912), 9–15. https://przegladorganizacji.pl/artykul/2016/10.33141po.2016.01.02

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance and take-overs. *American Economic Review, 76*(2), 323–339. https://www.jstor.org/stable/1818789

Jensen, M. C., & Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Jeżak, J. (2010). Ład korporacyjny. Doświadczenia światowe oraz kierunki rozwoju. [Corporate governance. World experience and development directions]. Warszawa: C.H.Beck.

Jiang, F., Ma, Y., & Shi, B. (2017). Stock liquidity and dividend payouts. *Journal of Corporate Finance, 42*(C), 295–314. https://doi.org/10.1016/j.jcorpfin.2016.12.005

Jones, T. M. (1980). Corporate social responsibility revisited, redefined. *California Management Review, 22*(3), 59–67. https://doi.org/10.2307/41164877

Kahneman, D., & Tverski, A. (1979). Prospect theory: An analysis of decision making under risk. *Econometrica, 47*(2), 263–291. https://doi.org/10.2307/1914185

Kesner, I. F., & Sebora, T.C. (1994). Executive succession: past, present, and future. *Journal of Management, 20*(2), 327–372. https://doi.org/10.1177/014920639402000204

Khanna, N., & Poulsen, A. B. (1995). Managers of financially distressed firms: Villains or scapegoats. *Journal of Finance, 50*(3), 919–940. https://doi.org/10.1111/j.1540-6261.1995.tb04042.x

Kraus, A., & Stoll, H. R. (1972). Price impacts of block trading on the New York Stock Exchange. *Journal of Finance, 27*(3), 569–588. https://doi.org/10.1111/j.1540-6261.1972.tb00985.x

La Porta, R., López-de-Silanes, F., Shleifer, A., & Vishny, R. 2000b. Investor protection and corporate governance. *Journal of Financial Economics, 58*(1–2), 3–27. https://doi.org/10.1016/S0304-405X(00)00065-9

Larcker, D. F., & Tayan, B. (2016). Chairman and CEO: The controversy over board leadership structure, Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance,

No. CGRP-58, Stanford University Graduate School of Business Research Paper, No. 16–32, https://ssrn.com/abstract=2800244

Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review, 46*(2), 97–113. https://www.jstor.org/stable/1910664

Lintner, J. (1962). Dividends, earnings, leverage, stock prices, and the supply of capital to corporations. *Review of Economics and Statistics, 44*(3), 243–269. https://doi.org/10.2307/1926397

Litzenberger, R. H., & Ramaswamy, K. (1979). The effects of personal taxes and dividends on capital asset prices: Theory and empirical evidence. *Journal of Financial Economics, 7*(2), 163–195. https://doi.org/10.1016/0304-405X(79)90012-6

Martin, J. D., Petty, J. W., & Wallace, J. S. (2009). *Value based management with corporate social responsibility.* New York: Oxford University Press.

McCahery, J. A., Sautner, Z., & Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. *Journal of Finance, 71*(6), 2905–2932. https://doi.org/10.1111/jofi.12393

Michaely, R., Thaler, R. H., & Womack, K. L. (1995). Price reaction to dividend initiations and omissions. Overreaction of drift? *Journal of Finance, 50*(2), 573–608. https://doi.org/10.1111/j.1540-6261.1995.tb04796.x

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth and the valuation of shares. *Journal of Business, 34*(4), 411–433. https://www.jstor.org/stable/2351143

Miller, M. H., & Rock, K. (1985). Dividend policy under asymmetric information. *Journal of Finance, 40*(4), 1031–1051. https://doi.org/10.1111/j.1540-6261.1985.tb02362.x

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics, 20*(1–2), 293–315. https://doi.org/10.1016/0304-405X(88)90048-7

Mueller, D. C. (1972). A life cycle theory of the firm. *Journal of Industrial Economics, 20*(3), 199–219. https://doi.org/10.2307/2098055

Murphy, K. J., & Zábojník, J. (2004). CEO pay and appointments: a market-based explanation for recent trends. *American Economic Review, 94*(2), 192–196. http://doi.org/10.1257/0002828041302262

Myers, S. C. (1984). The capital structure puzzle. Journal of Finance, 39(3), 574–592. https://doi.org/10.1111/j.1540-6261.1984.tb03646.x

Niederhoffer, V. (1971). The analysis of World events and stock prices. *Journal of Business, 44*(2), 193-219. http://dx.doi.org/10.1086/295352

Noga, A. (2009). Teorie przedsiębiorstw. [Enterprise theories]. Warszawa: Polskie Wydawnictwo Ekonomiczne.

Pessarossi, P., & Weill, L. (2013). Does CEO turnover matter in China? Evidence from the stock market. *Journal of Economics and Business, 70*(C), 27–42. https://doi.org/10.1016/j.jeconbus.2013.04.003

Pettit, R. R. (1977). Taxes, transactions costs and the clientele effect of dividends. Journal of Financial Economics, 5(3), 419–436. https://doi.org/10.1016/0304-405X(77)90046-0

Porter, M. E., & Kramer, M. R. (2011). The big idea: Creating shared value. How to reinvent capitalism – and unleash a wave of innovation and growth. *Harvard Business Review, 89*(1–2), 62–77. https://hbr.org/2011/01/the-big-idea-creating-shared-value

Ramiah, V., Xu, X., & Moosa, I. A. (2015). Neoclassical finance, behavioural finance and noise traders: A review and assessment of the literature. *International Review of Financial Analysis, 41*, 89-100. https://doi.org/10.1016/j.irfa.2015.05.021

Reinganum, M. R. (1985). The effect of executive succession on stockholder wealth. *Administrative Science Quarterly, 30*(1), 46–60. https://doi.org/10.2307/2392811

Ross, S. A. (1977). The determination of financial structure. The incentive-signaling approach. *Bell Journal of Economics, 8*(1), 23–40. https://doi.org/10.2307/3003485

Schmid, S., & Dauth, T. (2014). Does internationalization make a difference? Stock market reaction to announcements of international top executive appointments. *Journal of World Business, 49*(1), 63–77. https://doi.org/10.1016/j.jwb.2012.11.003

Scholes, M. (1972). The market for securities: Substitution versus price pressure and the effects of information on share prices. *Journal of Business, 45*(2), 179–211. https://www.jstor.org/stable/2352030

Shleifer, A., & Vishny, R. (1986). Large shareholders and corporate control. *Journal of Political Economy, 94*(3), 461–488. https://doi.org/10.1086/261385

Spence, M. (1973). Job market signaling. *Quarterly Journal of Economics, 87*(3), 355–374. https://doi.org/10.2307/1882010

Sudarsanam, S., Mahate, A. A. (2003). Glamour acquirers, method of payment and post-acquisition performance: The UK Evidence. *Journal of Business Finance and Accounting, 30*(1–2), 299–341. https://doi.org/10.1111/1468-5957.00494

Szyszka, A. (2009). Finanse behawioralne. Nowe podejście do inwestowani na rynku kapitałowym. [Behavioral finance. A new approach to investing in the capital market]. Poznań: Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu.

Trueman, B. (1988). A theory of noise trading in securities markets. *Journal of Finance*, *43*(1), 83-95. https://doi.org/10.1111/j.1540-6261.1988.tb02590.x

Watts, R. (1973). The information content of dividends. *Journal of Business*, *46*(2), 191–211. https://doi.org/10.1086/295525

Wiersema, M. F., & Moliterno, T. P. (2006). CEO turnover in the new era: A dialogue with the financial community. In J. Baum, S. Dobrev, A. Witteloostuijn (Ed.), *Ecology and Strategy*, *Advances in Strategic Management,* Vol. 23, Emerald Group Publishing Limited, Bingley, 137–173.