

# Does Ownership Structure Influence a Company's Dividend Policy?: A Study on NSE 500 Index

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## Abstract

The study examines the relationship between the ownership structure and dividend policy. It aims to explore the effects of Indian shareholdings, Foreign shareholdings, Independent Directors, Non-Independent Directors, Return on Assets and Debt on dividend decisions for a sample of 288 companies listed under NSE 500. Data was analyzed for the period of 2012-13 to 2021-22. The results show that dividend policy has positive and significant relationship with Indian shareholdings, Foreign Shareholdings, Independent Directors, Non-independent Directors and Return on Assets whereas Debt variable has negative and insignificant relationship.

**Keywords:** Ownership Structure, Dividend Policy, Return on Assets, Debt

## Introduction

The dividend payout can be influenced by the firm ownership structures. Ownership structure is paying a vital role to determining the competence of the market by giving information about two momentous things. First it will helpful for shareholders to the extent of risk diversification and the second is that, it will use as an informational tool for the management about the possible agency problem. Dividend of the firm can also be utilized by controlling shareholders to compensate the minority shareholders' concern in an environment where expropriation by controlling shareholders prevails (Faccio et al. 2001). The benefits of large shareholders in a dissimilar context are recommended in recent works (Laporta et al 1999). In realism, the capital market is not just right, making the dividend policy appropriate and largely affected by the presence of market frictions. Jensen and Meckling (1976); Rozeff (1982). The occurrence of large institutional shareholders and managerial ownership anticipated to support the interest of both shareholders and managers. Hence, one could expect that the ownership structure would affect the corporate dividend resolutions. Bebchuk (1999) and Gomes (2000) argue that when the authorized and institutional frameworks do not offer adequate safe haven for outside investors, concentrated ownership can mitigate the shareholder conflicts in the countries. Maury and Pajuste (2002) inspect that the affiliation between controlling shareholders and dividend policy for Finnish listed firms. They report that dividend payout ratio is pessimistically related to the control venture of the controlling shareholder.

The present study focused on the relationship between the ownership structure and dividend distributions of companies listed on the NSE 500. And, we hope to pursue the research question, "Does ownership structure influence a company's dividend policy?".

## Objective of the Study

The main objective of this study is to examine the impact and relationship between the ownership structure and dividend payout policy of listed companies in NSE 500.

## Literature Review

Following are some of the reviewed literatures with respect to the present study;

**Kumar (2003)** examines the possible association between ownership structure, corporate governance and firm's dividend payout policy. He examines the payout behavior of dividends and the association of ownership structure for Indian corporate firms over the period 1994-2000. He finds support for the association between ownership structure and dividend payout policy.

**Ramli (2010)** investigates the effect of large shareholders and dividend policy of Malaysian companies using panel data from 2002 to 2006. Ownership structure in Malaysia is concentrated; therefore the relevant agency conflicts to analyze are the one that arises from the relationship between large shareholders and minority shareholders. The result shows that companies make higher dividend payout as the shareholding of the largest shareholder increase. The magnitude of dividend payout is also larger when there is a presence of the substantial second largest shareholder in the company.

**Short et al. (2002)** examined the potential association between ownership structures and dividend policy for the UK companies. They presented the first results for the UK, where the institutional framework and ownership structures are different from those of the US. The results consistently produce strong support for the hypothesis that a positive association exists between dividend payout policy and institutional ownership. In addition, there is some evidence in support of the hypothesis that a negative association exists between dividend payout policy and managerial ownership.

**AL –Shubiri et al (2012)** present a study “The Relationship between Ownership Structure and Dividend policy: An Empirical Investigation”. The study is conduct in Jordan. The studies examine the relationship capital structure and dividend policy of the Jordan industrial firms for the year of 2005 – 2009. The results suggest that ownership structure approach is highly relevant to and understanding of corporate dividends policy in Jordan. The results indicate that is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment.

**Suzan Abed et al (2012)** investigated the effect of ownership structure on dividend payout policy with a sample of 168 listed firms on ASE for the period of 2005-2007. They found that there is a positive significant relationship between foreign ownership structure and dividend payout policy.

**Mahmoud Al- Nawaisel (2013)** studied the relationship between ownership structure and dividend payout policy of Jordanian industrial firms listed in ASE. The results showed that there is significant positive relationship between institutional ownership structure and dividend payout policy.

**Hamid Ullah et al (2012)** investigated the impact of ownership structure on dividend payout policy evidence from emerging markets KSE-100 index Pakistan for the period of eight years from 2003 to 2010. They found the positive significant relationship between foreign ownership structure and dividend payout policy.

**Al-Najjar and Kilincarslan (2016)** revealed that foreign and state ownership are associated with a less likelihood of paying dividends, while other ownership variables (family involvement, domestic financial institutions and minority shareholders) are insignificant in affecting the probability of paying dividends. However, all the ownership variables have a significantly negative impact on dividend payout ratio and dividend yield.

### **Hypotheses of Study**

The following hypotheses are formulated for this study.

H<sub>01</sub>: Indian Shareholdings has no significant impact on Dividend Payout Policy

H<sub>02</sub>: Foreign Shareholdings has no significant impact on Dividend Payout Policy

H<sub>03</sub>: Independent Directors has no significant impact on Dividend Payout Policy

H<sub>04</sub>: Non-Independent Directors has no significant impact on Dividend Payout Policy

H<sub>05</sub>: Return on Assets has no significant impact on Dividend Payout Policy

H<sub>06</sub>: Debt Capital has no significant impact on Dividend Payout Policy.

### **Methodology**

#### **Data Collection**

For this study the secondary data was used to do the analysis and secondary data is collected from CIME PROWESS Database for a period of 10years i.e., from 2012-13 to 2021-22.

#### **Tools and Techniques Used for Analysis**

For the purpose of data analysis descriptive statistics are used to describe and summarize the behavior of the variables in a study. They refer to the ways in which a large number of observations are reduced to interpretable numbers such as averages and percentages. Inferential statistics are used to draw conclusions about the reliability and generalization of the findings. In order to test the research hypotheses; the inferential tests used include the correlation and regression analysis.

Thus Descriptive Statistics, Correlation, Regression Model, Variance Inflation Factor (VIF) were the tools and techniques used for the analysis of the data.

#### **Data Variables**

Following are the data variables used for building the regression model.

Dependent Variable: Yield

Independent Variables: Indian Shareholdings, Foreign Shareholding, Independent Directors, Non-independent Directors, Return on Assets and Debt.

#### **Regression Equation:**

$$\text{Yield} = \beta_0 + \beta_1 \text{IS} + \beta_2 \text{FS} + \beta_3 \text{ID} + \beta_4 \text{NID} + \beta_5 \text{ROA} + \beta_6 \text{DEBT} + \epsilon_i$$

Where;  $\beta_0$  = Y- intercept

$\beta_1$  = Regression coefficient of IS

$X_1$  = Regressor (i.e., Indian Shareholding)

$\beta_2$  = Regression coefficient of FS

$X_2$  = Regressor (i.e., Foreign Shareholding)

$\beta_3$  = Regression coefficient of ID

$X_3$  = Regressor (i.e., Independent Directors)

$\beta_4$  = Regression coefficient of NID

$X_4$  = Regressor (i.e., Non-Independent Directors)

$\beta_5$  = Regression coefficient of ROA

$X_5$  = Regressor (i.e., Return on Assets)

$\beta_6$  = Regression coefficient of Debt

$X_6$  = Regressor (i.e., Debt)

$\epsilon_i$  = Random Error

### Analysis and Interpretation:

#### Descriptive Analysis

Descriptive analysis describes the characteristics of ownership structure and dividend payout policy prevalent among listed companies in NSE 500. The descriptive statistics used in this study consist of minimum, maximum, mean, and standard deviation.

**Table 1: Descriptive Analysis**

	N	Minimum	Maximum	Mean	Std. Deviation
Yield	2842	.00	129.70	1.3819	3.13526
IS	2870	0	18777330071	181219361.18	550705431.975
FS	2870	0	32118847885	129385207.19	874776110.473
ID	2667	1	17	4.18	2.190
NID	2588	0	16	3.21	2.343
ROA	2870	-369.7851	95.89758	7.02845	12.41775
Debt	2800	.0000	301631.0000	3332.0232	14047.4996
Valid N (listwise)	2401				

**Source: Computed from input file.**

Table 1 shows that descriptive statistics of dependent (Yield) and independent (ownership structure) variables used in this study. The dividend payout policy is measured by yield which has average of 1.3819. It has the minimum value of 0.00 and maximum value of 129.70 with standard deviation of 3.13526.

#### Correlation Analysis

For the purpose of this study the Pearson correlation coefficient matrix is used to identify the relationship between the ownership structure and dividend payout policy.

**Table 2: Correlation Matrix**

	Yield	IS	FS	ID	NID	ROA	Debt
Yield	1	-.040*	0.027	0.032	-.077**	.046*	-0.001
IS	-.040*	1	.561**	.084**	.059**	-.058**	.572**
FS	0.027	.561**	1	.096**	-.088**	0.001	.464**
ID	0.032	.084**	.096**	1	.378**	.068**	.091**
NID	-.077**	.059**	-.088**	.378**	1	0.038	.058**
ROA	.046*	-.058**	0.001	.068**	0.038	1	-.094**
Debt	-0.001	.572**	.464**	.091**	.058**	-.094**	1

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source: Computed from input file.**

Table 2 shows that Dividend Payout had a positive relationship with Foreign Shareholdings, Independent Directors and Return on Assets. But on the other side Indian Shareholdings, Non-independent directors and Debt are negatively correlated. Among the positively correlated variables Return on Assets are more positively correlated i.e., 0.046.

**Regression Analysis**

The regression analysis was used to know how well the dividend payout policy (DPP) can be explained by ownership structure (Indian shareholdings, Foreign shareholdings, Independent directors, Non-independent directors, Return on Assets and Debt). Table 03 represents the regression coefficient between dependent variable and independent variables.

**Table 3: Regression Analysis**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.182 <sup>a</sup>	.033	.031	2.05953

a. Predictors: (Constant), Debt, NID, ROA, ID, FS, IS

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	346.235	6	57.706	13.605	.000 <sup>b</sup>
	Residual	10154.500	2394	4.242		
	Total	10500.735	2400			

a. Dependent Variable: Yield

b. Predictors: (Constant), Debt, NID, ROA, ID, FS, IS

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized	t	Sig.	Collinearity Statistics	
		B	Std. Error	Coefficients			Tolerance	VIF
1	(Constant)	1.151	.100		11.455	.000		
	IS	-4.045E-10	.000	-.107	-3.789	.000	.504	1.985
	FS	1.638E-10	.000	.074	2.797	.005	.575	1.740
	ID	.122	.021	.128	5.845	.000	.841	1.189
	NID	-.109	.020	-.123	-5.567	.000	.827	1.210
	ROA	.010	.004	.057	2.836	.005	.984	1.016
	Debt	4.273E-6	.000	.031	1.217	.224	.634	1.577

a. Dependent Variable: Yield

**Source: Computed from input file.**

Table 3 shows that the dividend policy got influenced significantly due to Indian shareholdings, Foreign Shareholdings, Independent Directors, Non-independent Directors and Return on Assets as their P values i.e., 0.000, 0.005, 0.000, 0.000 and 0.0005 respectively which are less than threshold P-value of 0.05, Null hypothesis will be rejected and Alternative hypothesis will be accepted in these variables.

As the P value of Debt i.e., 0.224 is more than the threshold P-value of 0.05, Null hypothesis will be accepted. Therefore it is inferred that Debt variable will not affect significantly on yield.

Variance Inflation Factors for all the variables are less than 5, it means that data used fit for building the regression model.

**Major Findings**

Major findings of the present study are listed below;

- The descriptive statistics of dependent (Yield) and independent (ownership structure) variables used in this study. The dividend payout policy is measured by yield which has average of 1.3819. It has the minimum value of 0.00 and maximum value of 129.70 with standard deviation of 3.13526.
- Correlation Matrix shows that Dividend Payout had a positive relationship with Foreign Shareholdings, Independent Directors and Return on Assets. But on the other side Indian Shareholdings, Non-independent directors and Debt are negatively correlated. Among the positively correlated variables Return on Assets are more positively correlated i.e., 0.046.
- Regression Model shows that the dividend policy got influenced significantly due to Indian shareholdings, Foreign Shareholdings, Independent Directors, Non-independent Directors and Return on Assets as their P values i.e., 0.000, 0.005, 0.000, 0.000 and 0.0005 respectively which are less than threshold P-value of 0.05, Null hypothesis will be rejected in these variables.
- As the P value of Debt i.e., 0.224 was more than the threshold P-value of 0.05, Null hypothesis will be accepted. Therefore it is inferred that Debt variable will not affected significantly on yield.
- Variance inflation factors for all the variables are less than 5% or 10%. Therefore it is inferred that the input data was fit for building the regression model.

**Conclusion:**

The present study focused on the effect of dividend policy and ownership structure by considering NSE 500 companies listed in NSE. The data collected from CIME PROWESS Database for a period of 10 years i.e., from 2012-13 to 2021-22 and analyzed the relationship between the stated variables i.e., Indian Shareholdings, foreign shareholding, independent directors, non-independent directors, Return on Assets and Debt on Yield. Finally, the findings indicate that Indian Shareholdings, Foreign Shareholdings, Independent Directors, Non-independent Directors and Return on Assets have contributed positively and significantly towards the change in the value of yield as null hypothesis is rejected in this case. It is also inferred that the variable Debt has not contributed or contributed negatively towards the change in the value of Yield.

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