

**RELATIONSHIP BETWEEN OWNERSHIP PATTERN AND DIVIDEND POLICY: A
STUDY OF INDIAN PRIVATE SECTOR BANKS**

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Abstract

Dividend payout decisions are one of the fundamental components of corporate policy and have been viewed as an issue of interest in the financial literature. Dividend, reward to stockholder for their investment and risk bearing, depends on various factors. This study aims to examine the impact of ownership structure on dividends payout ratio. The present study was causal in nature. The study will be carried out to analysis the relationship in Indian context and 14 private sector banks will be taken as sampling element. The data will be collected for the previous 12 years (2010 to 2021). Sampling element will be covered Dividend pay-out ratio, promoter's holding, FII's holding, DII's holding and shareholding by general public. Stationary test, Correlogram residual test, Actual fitted residual analysis, Heteroskedasticity test, Histogram normality test were applied. A multiple regression analysis is conducted on the sample companies to test the hypothesis the results shows that ownership pattern is having significant impact on dividend policy.

Keywords: Dividend payout, Private Banks, FII, DII, Promoters Holdings.

Introduction

The main basement of financial industry is dividends. Investors put their money into the enterprises because they expect that into the future company will outpay through the dividends much more, than was previously invested. Almost all enterprise valuations are based on the expected cash flow from the company, in other words - dividends. So, value of companies depends on the future dividends. Obviously, for the short and medium time investors it would be extremely important to find out future dividend policy because their income will significantly depend on this parameter.

This research will be useful primarily to investors because the investor, who first of all thinks about the benefits of his investments when buying certain shares, needs to know all the main factors affecting their value. Despite early research, in modern economic theory it is proven that the value of the company and the welfare of its owners are closely related to the current dividend policy.

According to Rozeff (1982), dividend payout increases external financing costs but reduces managerial opportunism costs. Shleifer and Vishny (1997) asserted that, in a situation where major shareholders obtain almost complete control over the firm, they begin to derive private benefits of control in which minority shareholders' participation is denied. There are multiple ways in which minority shareholders' rights can be abused, with Faccio *et al.* (2001) placing particular emphasis on low dividend payments.

Conversely, large owners may collude with each other and/or the controlling owner to the detriment of minority shareholders. These considerations may be important in analyzing dividend decisions in companies with such a shareholder structure. Furthermore, the largest shareholder's identity impacts on the dividend decisions made by companies (Bebchuk, 2005; Faccio *et al.*, 2001; Kouki and Guizani, 2009; Kumar, 2006; La Porta *et al.*, 2000).

Dividend payout decisions are one of the fundamental components of corporate policy and have been viewed as an issue of interest in the financial literature. Dividend, reward to stockholder for their investment and risk bearing, depends on various factors. Foremost of these determinants are level of profits, financing constraints, investment opportunities, size of the firm, and pressure from shareholders and regulatory authorities. The Payout policy appears to be governed by the agency conflict between managers and shareholders.

Review of Literature

Mancineelli & Ozkan (2006) conducted a study on Ownership Structure and Dividend Policy Evidence from Italian Firms. The study investigated the relationship between the voting rights of large shareholders and the firm dividends policy tests have been carried out with the view that the dividend policy of firms may be used to expropriate wealth from minority shareholders by large shareholders. A sample of 139 Italian listed corporations has been considered. The TOBIT regression results suggest a significantly negative impact of the voting rights of the largest shareholder on the firm's dividend payout. According to these results, the monitoring power of 'strong' large shareholders except the largest is very limited. To some extent, this finding might be explained by the impact of agreements among shareholders on the firm dividend policy. In fact, they found support for the hypothesis that the presence of voting syndicates has some impact on the dividend policy. That is, when block-holders are held together by a coalition of the dividend payout is higher. This last finding is also supported by the LOGIT model analysis when the dependent variable is a dummy representing the decision to pay or not to pay dividends. The results obtained when the degree of separation between ownership and control is included among the regression as an additional measure of a firm's vulnerability to insider expropriation, does not allow us to reject the hypothesis that investor might perceive the risk of expropriation and thus may be less willing to supply resources to Corporate that pursue a low level dividends policy.

Sura, pal and Bodla (2006) conducted their study on one hundred forty six seventeen one sixty four listed in national stock exchange by using data of latest eleven years (1996-2006). Study found those factors which are affecting dividend policy on banking sector by using of linter model and Britain cash flow model. It found that determinants of current dividend are lagged dividend and the current earning.

Baba (2009) studied the impact of foreign ownership on dividend policy of Japanese firms listed on the Tokyo Stock Exchange finds that a higher level of foreign ownership raises the probability of dividend payouts and dividend increases but lowers the probability of no dividend changes and dividend decreases. Similarly, Jeon et al. (2011) find that, for firms listed on the Korean stock market, higher dividends attract more foreign investors and the reverse is true when foreign investors have substantial shareholdings. Their results, however, are mostly driven by foreign institutions rather than domestic ones. Examining dividend policy of Japanese firms,

Basil Al-Najjar and Erhan Kilincarslan (2012) this paper aims to investigate the impact of ownership structure on dividend policy of listed firms in Turkey. First, all companies listed on the ISE (during the period 2003-2012) are considered, including "dividend-paying" and "non-dividend paying" firms to prevent the sample selection bias. Second, financial sector (banks, insurers, pension funds, investment trusts) companies and utilities (gas, electric, water) are excluded, since they are governed by different regulations and follow arguably different investment and dividend polices. Finally, the sample is further narrowed down to firms whose accounting and financial data is available on DATASTREAM, whereas companies' ownership and incorporation dates are compiled from the annual reports published in the Public Disclosure Platform (KAP) of the ISE and companies' official websites. The validity of the data is also cross checked with OSIRIS. Random effects logit and tobit regressions models was used for multivariate analyses. Results indicate that ISE-listed firms have highly concentrated ownership structures and are mostly owned by families followed by foreign investors, while other block holders, Turkish financial institutions and the state, show relatively lower shareholdings. Foreign and state ownership are associated with a less likelihood of paying dividends, while other ownership variables are insignificant in affecting the probability of a Turkish firm to pay cash dividends. However, all the ownership variables, family effect (through both ownership and board representation), foreign investors, domestic financial institutions, the state and minority investors ownerships, have a significantly negative impact on the amount of dividend payouts and dividend yield of ISE firms.

Nurul Liyana & Mohd Fadzi (2018) conducted a study on ownership structure and Islamic bank performance. This study conducted to investigate the relationship between ownership structures on bank performance in Malaysia consists local Islamic banks and foreign Islamic Banks. Secondary

data extracted from annual reports of 3 local Islamic Banks and 3 foreign Islamic Banks from 2015 to 2016 period are collected. Techniques of data analysis used in this study are normality, heteroscedasticity, auto-correlation, correlation and panel data test. Panel data test describe the analysis on fixed effect model (FEM), random effect model (REM) and Hausman test. The result shows that the foreign ownership has largest impact to bank performance compared to local ownership structure. The impact of different types of ownership to bank performance shows that the differences have their own effect on performance of each banking system. The existence of large shareholders, beneficial owners and managers to reduce agency problems, when the controlling shareholder equity ratio is relatively large, its own interests are closely linked with the interests of the company, the controlling shareholder in the company's decision-making in the big event will give serious consideration to the company interests, and avoid opportunistic mentality.

Ayu Mellyta Purnama Sari, Henny Rahyuda (2021) The Effect of Ownership Structure on Financial Performance with Capital Structure as a Mediating. The purpose of this study is to determine the effect of managerial ownership structure and institutional ownership structure on capital structure and whether the capital structure can mediate the influence of managerial ownership structure and institutional ownership structure on financial performance at agriculture companies in the Indonesia Stock Exchange. The data used in this research is quantitative data for the period 2015-2019, which is sourced from annual financial reports published by companies listed in the Indonesia Stock Exchange. The population collected is 17 companies. The results show that the influence of managerial ownership structure has no effect on capital structure; institutional ownership structure has a positive effect on capital structure. Managerial ownership structure, institutional ownership structure, and capital structure have no effect on financial performance. In addition, the capital structure is also proven to be unable to significantly mediate the influence of managerial ownership structure and institutional ownership structure on the financial performance of agricultural companies on the Indonesia Stock Exchange. The results showed that Managerial ownership structure has no effect on capital structure, institutional ownership structure has a positive effect on capital structure in agriculture companies in the 2015-2019 period. Based on the results of the study, it is recommended for companies in the agriculture sector listed on the BEI to pay attention to the portion of the Managerial Ownership Structure, Managerial Ownership Structure and capital structure of the company to improve performance through improving company performance so that it can attract investors to invest in the company.

Research Objectives

- The objective of the study is to check the impact of ownership pattern on dividend policy.
- To open new avenues for further researches.

Variables of the Study

- **Foreign Institutional Investor (FII)** - A foreign institutional investor (FII) is an investor or investment fund investing in a country outside of the one in which it is registered or headquartered. The term foreign institutional investor is probably most commonly used in India, where it refers to outside entities investing in the nation's financial markets.
- **Domestic Institutional Investor (DII)** - DII stands for 'domestic institutional investors.' DIIs are a particular class of investors that undertake to invest in financial assets and securities of the country they are currently residing in.
- **Promoter holding** - Promoter holding signifies the percentage of shares that are held by the promoters of a company. Promoters and promoter groups are entities which have a significant influence on a company. They may have a major or even a controlling stake in the company and may also hold senior executive positions.
- **Public Shareholding** - Public Shareholders means purchasers of Ordinary Shares in the IPO or in the secondary market, including any of the Company's officers or directors and their affiliates to the extent that they purchase or acquire Ordinary Shares in the IPO or in the secondary market.

Dependent variable

- Dividend Payout Ratio (DPR):

The Linear Regression Model is used to examine the hypotheses. From previous studies and past review of literature it is seen that this model has been widely used and fairly tested in order to examine the effect of ownership pattern on dividend policy. Consistent with this, the authors have developed the empirical model as follows:

- $DPR_t = \alpha + \beta_1 DII_t + \beta_2 FII_t + \beta_3 PH_t + \beta_4 Holding\ by\ general\ public_t + \beta_5 FIRM_SIZE_t + \epsilon_t$
 Where, DPR = Divided Payout ratio, DII is the percentage of shares owned by domestic institutional investors, FII is the percentage of shares owned by Foreign institutional investor, PH is the percentage of shares owned by Promoters, Holdings by general public is the percentage of shares owned by General Public. α is the intercept and β is the regression coefficient and ϵ_t is the composite error term

Hypotheses

- H_{01} : There is no significant impact of ownership pattern on dividend policy.
- H_{a1} : There is a significant impact of ownership pattern on dividend policy

Research Design

The present study was causal in nature. The study will be carried out to analysis the relationship in Indian context and 14 private sector banks will be taken as sampling element. The data will be collected for the previous 12 years (2010 to 2022). Private sector banks of India will be taken as sampling frame. Sampling element will be covered Dividend pay-out ratio, promoter’s holding, FII’s holding, DII’s holding and shareholding by general public.

Augmented Dickey Fuller Test

Augmented Dickey Fuller test that is the new form of Dickey Fuller test. It helps in controlling the high orders of correlations with the addition of lag difference of the dependent variables to the right side of the regressions.

Table 1: Unit Root Test results

Variable	ADF-statistic	Critical value	Probability value	Level of significance	Order of integration
Promoter’s holding(LPRM)	-15.46575	-3.452753	0.0000	1%	1 st Level
Foreign Institutional Investor(LFII)	-4.9000587	-3.440771	0.0000	1%	1 st Level
Domestic Institutional Investor (LDII)	-4.573769	-3.440754	0.0002	1%	1 st Level
General Public Share-holding (LGP)	-22.84423	-3.440858	0.0000	1%	1 st Level
Others Holding (LOTS)	-3.997041	-3.441968	0.0015	1%	1 st Level
Dividend Per Share (LDPR)	-3.258418	-3.440788	0.0173	1%	1 st Level

The Unit Root tests showed that all variable stationary at 1st level Order of integration. Augmented Dickey- Fuller unit root test statistics are greater than their critical values considered at 1% level of significance was considered for Dividend Per Share, Promoter’s holding, Foreign Institutional Investor, Domestic Institutional Investor, General Public Share-holding and Others Holding. P-value is less than 0.05, so series are significant. Series are integrated.

Regression Analysis

VARIABLE	COEFFICIENT	STD.ERROR	T STATISTIC	PROB.
C	-2.839013	1.289139	-2.202255	0.0285
LPRM	0.290812	0.198230	1.467041	0.1435
LFII	0.940260	0.396812	2.369538	0.0185
LDII	1.159567	0.177560	6.530557	0.0000
LGP	1.103248	0.392401	2.811535	0.0053
LOTS	-0.050705	0.093555	-0.541978	0.5883

The outcome of regression model has shown that independent variables; Foreign Institutional Investor (LFII) (0.0185), Domestic Institutional Investor (LDII) (0.000) and General Public Share-holding (LGP) (0.0053), have significant impact on Dividend Per Share spread. Because the Prob. value of t-statistic is less than **0.05**. Promoter’s holding (LPRM) (0.1435) and others holding (OTS) (0.5883) have no significant effect on Dividend per Share because the Prob. value of t-statistic is more than **0.05**.

$$y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + e$$

$$\text{Dividend Per Share} = -2.839013 + 0.290812(\text{LPRM}) + 0.940260(\text{LFII}) + 1.159567(\text{LDII}) + 1.103248(\text{LGP}) + -0.050705(\text{LOTS})$$

R-squared	Adjusted R-squared	Durbin-Watson statistic	F-statistic	Prob.(F-statistic)
0.204351	0.189989	0.083838	14.22867	0.000000

The above table (Table-3) defines the results of regression analysis. The coefficient of determination 0.189989 means that 18.99 % of the variation in Dividend Per Share spread is being explained by the independent variables Foreign Institutional Investor(LFII), Domestic Institutional Investor(LDII), General Public Share-holding(LGP), Promoter’s holding(LPRM), and Others holding(OTS). Value of F-statistic 14.22867 is significant at **0.000%** which is less than **5%** reveals, model is good fit.

Breusch-Godfrey Serial Correlation LM Test

H₀ - residuals are not serially correlated.

F-statistic	296.9369	Probability	0.0000
Obs*R-squared	0.880181	Probability	0.7375

From the above table it is resulted that P-value (0.7375) of **Observed R-square** is more than standard value (**0.05**) so, null hypotheses is not rejected. It means the residuals are not serially correlated.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

H₀ - residuals are not heteroscedastic.

F-statistic	0.434144	Probability	0.7834
Obs*R-squared	1.836464	Probability	0.7658

From the above table it is resulted that P-value (0.7658) of **Observed R-square** is more than standard value (**0.05**) so, null hypotheses is not rejected. Hence Residuals are not heteroscedastic.

Histogram normality test

This test is applied to check whether the residual are normally distributed or not.

it is desirable that should be normally distributed.

H₀ - residuals are normally distributed.

From the above table it is resulted that P-value (0.052618) of Jarque –Bera (50889379) is more than the standard value (0.05) so, null hypothesis is not rejected. It means the residual are normally distributed.

Conclusion

The regression results suggest that ownership pattern is having significant impact on dividend policy. The outcome of regression model has shown that independent variables; Foreign Institutional Investor (LFII) (0.0185), Domestic Institutional Investor (LDII) (0.000) and General Public Share-

holding (LGP) (0.0053), have significant impact on Dividend Per Share spread. Because the Prob. value of t-statistic is less than **0.05**. Promoter's holding (LPRM) (0.1435) and others holding (OTS) (0.5883) have no significant effect on Dividend per Share because the Prob. value of t-statistic is more than **0.05**. This helps in addressing conflict between shareholders and managers and helps develop trust and confidence between outsiders and shareholders of the company. Our results support the earlier work conducted by Shleifer and Vishny (1986), Stouraitis & Wu (2004), Kumar (2003), Cook & Jeon (2006) and Gill & Obradovich (2011) among others.

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