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The Impact of Ownership Structure on Dividend Policy: Empirical Evidence from NSE Listed Companies in India

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Abstract

Purpose: The objective of the study is to analyze the influence of ownership structure on dividend policy of selected listed Indian companies.

Design/methodology/approach: The top 50 companies listed on NSE (National Stock Exchange) were examined for a period of three financial years from 2022 to 2024. Due to the cross-sectional and time-series character of the data, fixed effect panel model is used as the primary analytical approach.

Findings: The results revealed that the firms with higher Indian ownership and institutional ownership distribute higher levels of dividend whereas no significant association was found between foreign ownership and dividend payments, also non-institutional ownership and dividend payout were found to be insignificantly associated. Additionally, it is observed that there is a positive impact of return on assets (ROA) and firm size on dividend payout policy.

Originality/Value: Most of the earlier research has looked at one or two forms of ownership to see how they affected dividend distributions; however this study looked at four distinct types of ownership using a separate data set. Furthermore, to the authors' knowledge, no other study in India has explored this subject in such depth as theirs.

Keywords: Corporate governance, Ownership structure, Dividend policy.

I. Introduction

Decisions about dividend payment have received much interest in contemporary financial literature. Often, when boards examine their CG policies, dividends come first. Dividends are often defined as the monetary distribution of a company's earnings in real assets to its shareholders in proportion to their ownership. The term "dividend policy" refers to the firm's payment strategy that management use to determine the size and pattern of cash distributions to shareholders over time. Dividend policy has remained the main conundrum of corporate finance since the work of Black (1976). The goal of every firm is to increase the wealth of its present shareholders and the market value of the company's equity shares represents the shareholder's wealth which in turn reflects the company's key investment and financing decisions. In order to achieve this goal, firms pay dividends. A company's dividend policy affects all of its stakeholders. Dividend is important from the viewpoint of investors as it can be a source of regular income or, if it accumulates, can be seen in capital growth. Similar to this, managers' ability to invest in ventures depend on how much dividend they can pay to shareholders; if they pay out more; there may be less money available for investment. One of the various strategies for resolving the agency problem is dividend policy.

A collection of interactions between a company's board, its shareholders, and other stakeholders is what is often referred to as corporate governance (henceforth, CG) (OECD, 2001). Often, when boards examine their CG policies, dividends come first. The literature on dividend policy and CG seeks to address the issues related to the agency problem. Firms evaluate a range of variables, including capital impairment, reinvestment rates, liquidity, and borrowing capacity, in order to determine the dividend payout policy. The legal and other limitations are primarily determined by these reasons. There has been a significant amount of research on variables influencing corporations' dividend policies in recent years, but there aren't many studies that examine the relationship between ownership structure and dividend distribution. Present work has sought to address the following query to bridge the research gap: Does a company's ownership structure have an impact on dividend policy? Existing corporate theories contend that dividend payments provide indirect benefits of control even in situations when shareholders are not actively following the company's performance (Rozeff 1982). The ownership structure of the companies differs from country to country. In case of India, other than small investors, significant shareholders, such as directors, promoters, and corporations, have a lot of motivation and power to influence the funding choices made by the company. The terms "promoters" and "non-promoters" are used to describe the ownership structure of Indian companies. In general, "promoters" refer to people who are involved in the company's formation and those who have control over it through ownership of shares or management positions. Other shareholders, including minority owners, are referred to as "non-promoters." The kind of ownership or the percentage of shares held by the shareholders determines the dividend policy. There are three main categories for shareholding categories in India (promoters, non-promoters or public shareholdings and custodians). The promoters are further categorized as Indian promoters and foreign promoters, whereas the non-promoters (also known as public shareholdings) are further divided into institutional as non-promoters, central and state governments as non-promoters and non-institutional investors. Studies on the impact of ownership structure on dividend policy mainly concentrate on established nations. Thus, the primary goal of the study is to investigate the association between listed companies' dividend policies and their ownership structure in emerging markets like India. We fill the literature gap in emerging markets like India by undertaking research in this area. The ownership structure relationship with dividend payout is analyzed by employing Indian ownership, foreign ownership, institutional and non-institutional ownership variables. The rest of the paper is structured as follows: section II presents major literature review and hypothesis development, section III presents the research methodology, variables included in the study and the research model used. Section IV presents the results and analysis. Finally, section V gives the conclusion.

II. Literature Review and Hypothesis Development

The ownership patterns of a company may have an impact on the dividend payments. Due to the complex ownership structure, particularly in emerging countries, the impact of ownership structure on dividend policy is gaining considerable attention. Short et al., (2002) conducted a study by employing well established dividend payout models to evaluate the possible relationship between ownership structure and dividends policy. Kouki and Guizani (2009) observed that Tunisian enterprises paid out smaller dividends when they had larger institutional ownership, consistent with the effective monitoring function of institutional investors. On the other hand, Abdelsalam et al. (2008) found a positive association between institutional ownership and Egyptian companies dividend policy decisions. Thanatewee (2013) examined the relationship between Thailand's dividend policy and ownership structure. The projected outcomes demonstrated a strong and favourable relationship between concentrated ownership and dividend policy. Institutional ownership was furthermore favourable while individual ownership was negatively correlated with respect to dividend payment. Thus, it can be said that various differences may exist between different types of shareholding patterns. Additionally, businesses are more effective at monitoring by foreign investors. Vo, X.V. (2015) by using a detailed data set discovered that foreign investors in Vietnam prefer to invest in firms that pay low dividend and when become a larger shareholder, foreign investors tend to force firm managers to pay fewer dividends and retain higher income to exploit future emerging market opportunities. Kulathunga and Azeez (2017) investigated the effect of ownership structure on dividend policy of 77 Sri Lankan firms listed in the Colombo Stock Exchange for the period 2006-2014. A negative association was found between institutional ownership and dividend policy. Also, the managerial ownership was negatively associated with dividend payments. While a significant positive association existed between concentrated ownership structure and dividend policy. Contributing to the growing literature, Arora and Srivastava (2019) provides additional insights into the relationship between ownership concentration and dividend payout in India and indicates a positive relationship between ownership concentration and dividend payout. Bataineh and Ntim (2020) indicates that institutional ownership and dividend yield are significantly positively correlated, although foreign ownership is linked to a lower chance of dividend payments. The study also provides clear evidence that high institutional ownership as an external control mechanism increases the need to pay dividends. Widiatmoko et al. (2021) aims to investigate the affect of share ownership structure on dividend policy and its affect on the value of company. The results show that managerial ownership, institutional ownership, and ownership concentration serve as substitutes for ownership structure. The findings also show that while management ownership has no influence on dividend policy, institutional ownership and ownership concentration do. The outcomes further demonstrate that a dividend policy enhances the value of the company. As expected, the control variables of profitability and leverage have an impact on the dividend policy and company value.Hasan et al. (2023) analyses that government and institutional ownerships have a huge but negative impact on dividend distributions, whereas family and public ownerships have a significant and favorable influence on dividend payment.

Empirically, studies exploring the relationship between ownership structure and dividend payout policy are finite and hence, present analysis provides valuable research. The present study measures the ownership structure by using Indian ownership, foreign ownership, institutional and non-institutional ownership as the proxies for ownership structure. On the basis of the above discussion, this study came up with the following null hypothesis:

H_1: There is relationship between Indian ownership and dividend pay-out.
H_2: There is insignificant relationship between foreign ownership and dividend pay-out.
H_3: There is relationship between institutional ownership and dividend pay-out.
H_4: There is insignificant relationship between non-institutional ownership and dividend pay-out.

III. Research Methodology

Data Collection Sources and Sample Size

Data for the study has been collected from National Stock Exchange (NSE) annual reports, corporate websites and from the databases such as PROWESS IQ and ACE EQUITY, in order to obtain the information regarding the variables. The sample of the study includes the top 50 companies listed on NSE covering the time period of three years from 2022 to 2024.

Model of the Study

To examine the relationship between ownership structure and dividend pay-out, the following panel regression model was applied after considering the time series and cross-sectional nature of the dataset:

$$\mathbf{DPR_{it} = \alpha + \beta1_{it}INDOWN + \beta2_{it}FOROWN + \beta3_{it}INSTOWN + \beta4_{it}NONINSTOWN + \beta5_{it}FSIZE + \beta6_{it}FGROWTH + \beta7_{it}ROA + \varepsilon_{it}}$$

Where:
DPR is a dependant variable representing the Dividend Payout Ratio as dividend per share divided by earnings per share;
INDOWN is an independent variable representing the total shares owned by Indian investors' as promoters divided by total number of issued shares;
FOROWN is an independent variable representing the total shares owned by foreign investors' as promoters divided by total number of issued shares;
INSTOWN is an independent variable representing the total shares owned by institutional investors' as promoters divided by total number of issued shares;

NONINSTOWN is an independent variable representing the total shares owned by non- institutional investors' as promoters divided by total number of issued shares;
FSIZE is a control variable representing the size of the firm;
FGROWTH is a control variable representing the growth of the firm as change in sales;
ROA is a control variable representing a company's profitability as return on assets;

IV. Analysis and Interpretation

Table I. Panel Regression Results

Fixed-effects Dependent variable: Dividend payout ratio

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
CONST	−76.4882	20.1692	−3.792	0.0004	***
INDOWN	0.000960778	0.000198881	4.831	<0.0001	***
FOROWN	0.362617	0.446829	0.8115	0.4208	
INSTOWN	0.589690	0.335093	−1.760	0.0843	*
NONINSTOWN	0.239808	0.335573	0.7146	0.4780	
FSIZE	32.7337	3.80522	8.602	<0.0001	***
FGROWTH	0.0700272	0.0463952	1.509	0.1373	
ROA	1.32425	0.527931	2.508	0.0153	**
LSDV R-squared	0.832642	**Within R-squared**	0.645834	**P-value(F)**	2.01e-10
Durbin-Watson	1.492022				

Source: Authors Gretl output

Note: *, **, ***, indicate statistically significant coefficients at 10%, 5% and 1% confidence levels respectively.

Table I illustrates the panel data analysis that includes both time series and cross-section analyses.

All the panel data regression's presumptions have been verified. The results showed a p- value of less than 0.05 and accordingly, the hypothesis that the random effects model is the most appropriate model is rejected and the fixed effects model is chosen as the alternative. As per the results revealed by the above table of panel data regression, the Indian ownership i.e. INDOWN is statistically significant at 1% significance level while the foreign ownership shows no association with dividend payout. Institutional ownership at 10% significance level indicates a positive and significant association with dividend payments. The Hausman test was conducted to determine the preferred model between the random effects regression and the fixed effects regression. However, non-institutional ownership signifies an insignificant and positive relationship with dividend payments under the applied regression model. Additionally, the control variable such as log of total assets representing firm size is significant at 1% significance level and ROA (Return on Assets) is also positive and significant at 10% significance level. Also, change in sales representing the firm growth is positively related with dividend payouts of the companies under study. Our results are free from the problem of autocorrelation as the value of Durbin–Watson is 1.492, which lies between 0-4.

Hypothesis outcomes

Our results reveal a positive and significant association between Indian ownership and dividend payout. Also, institutional ownership is positively and significantly associated with dividend payments. Therefore, our alternative hypothesis 1 and 3 are accepted which means that Indian ownership and institutional ownership are positively and significantly associated with dividend payout. However, an insignificant association exists between foreign ownership and dividend payments having p-value of 0.4208. Similarly, non-institutional ownership and dividend payouts are insignificantly associated with each other. Thus, hypothesis 2 and 4 are accepted, which means that foreign ownership and non-institutional ownership do not affect dividend payout decisions.

V. Conclusion

The relationship between ownership structure and dividend policy has been the subject of a vast body of research; but it has not received enough attention in the context of emerging economies. Thus, our study focuses on major shareholding patterns i.e. Indian, foreign, institutional and non-institutional ownership and investigates whether these shareholdings have an influence on the dividend payout policy of the companies selected for the study. The study views that the companies pay more dividends when they have higher institutional holdings. Also, the results are consistent for Indian shareholders as they have a positive and significant association with dividend payments. However, the results also indicate that the foreign ownership and non-institutional ownership is insignificantly and positively associated with dividend payments. Our findings highlight the contribution of ownership patterns in enhancing the dividend payouts and provide support to the model that predicted an association of ownership structure and dividend policy in emerging economies like India. Efforts have been made to extend the scope of previous literature by making use of most important proxies of ownership patterns of India i.e. Indian ownership, foreign ownership, institutional and non- institutional ownership. One limitation of our study might be that we have not examined how governance at the firm level may affect the association between investors' ownership and payout policy, which may be a possible weakness of our analysis. In spite of that the research responds to a call to look into the ownership environments in emerging market economies making a contribution to the existing literature.

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