



Review of ownership makeup and dividend policy

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Abstract

Dividends are one of the most challenging topics in financial literature because they involve considerations about retained earnings and earnings distribution. The study is based on a review of the literature on the relationship between ownership structure and dividend payout. It covers the years 2010 through 2020. The study demonstrates the company's various ownership configurations. Examples include government ownership, institutional ownership, family ownership, and foreign ownership. Foreign ownership, ownership concentration, promoter ownership, management ownership, institutional ownership, and dividend payout all have positive relationships, according to the study's findings. However, the state's distribution of dividends and family ownership are at odds.

Keywords: Dividend Policy, Dividend payout, Ownership Structure, Institutional Ownership.

Introduction

Dividend disbursement is considered as one of the most challenging decision as it involve a trade between distributing profits to satisfy the shareholders and the amount of profit retained for growth prospectus. It is important from the point of view of shareholders and managers. The concept of dividend was started with Lintner (1956) as amount of dividend depends upon current year earnings and previous year dividend. Later on Modigliani & Miller's (1961) says that "Perfect markets do not have an impact on a company's dividend decisions". Furthermore, Lintner (1962) and Gordon (1963) focused on "High dividend payment is associated with the value of the high companies in a world of uncertainty and incomplete information". Aforementioned discussion by different author did not reached conclusive evidence and the dividend policy is still like a puzzle remains unsolved. In the similar sense Black (1976) conclude, "The harder we look at the dividend picture, the more it seems like a puzzle, with the pieces that just do not fit together".



Dividends are described as the payment provided to shareholders in exchange for their financial support of a firm and recompense for bearing the risks associated with operating a corporation. As a result, the management team of the corporation develops a dividend policy for the purpose of dividing and disbursing the profits in accordance with their contributions to the business. The corporation have to follow the optimum dividend policy because it affects value of firm. There must be equilibrium between the amount of earnings retained in business for growth prospect and the amount of earnings distributed as dividend. Therefore in field of financial literature dividend policy is delicate matters and its balance can decisively be influence through ownership structure. On one hand dividend disbursement can be used to reduce the agency problems with in the corporation (Rozeff 1982) but while on other hand large shareholders may utilise their overwhelming control to seize resources for their personal profit at the cost of minority holders, which leads to reduction in dividend payments and increase in agency problems in the corporation. As a result, the dividend policy and ownership structure of the company are inextricably linked. The distribution of equity holdings in terms of capital and voting rights, as well as the identification of equity owners, is the definition of ownership structure.

The present study concentrates on the association between dividend policy of corporation and its ownership structure. It covers time period from 2010 to 2020.

Review of Literature

A review of the literature is a thorough summary of prior studies on a problem pertaining to the study. It provides a theoretical base to the problem under study. The literatures associated with the present study are as under:

Author	Objective	Methodology	Major Findings
Ahmad and Javid (2010)	“To explore the relation of ownership structure with dividend payout of Karachi Stock Exchange 100 index	Full, partial, The Modified Fama and Babiak Model and Earning trend model. Variables used- change in dividend,	Corporate investor’s ownership has significant positive, director’s ownership & financial institutional investor’s ownership are not related, foreign ownership has no association with dividend payouts.



	listed 50 non-financial firms over the period 2001-2006”.	change in earnings, director’s holding, corporate holding, foreign holding & financial institution holdings, Control Variables- debt-equity ratio, sales growth, growth in earnings.	
Shah (2011)	“To analyse the effect of ownership structure of Karachi stock exchange listed Pakistani firm on its Dividend payout over the period 2002-2006”.	Panel data analysis and common effect model. It includes independent variable- ownership structure, Dependent variables- Dividend yield, Control variables- Firm size and ROE.	“There is positive association between Dividend payout and its ownership structure”.
Shubiri et al. (2012)	“To explore the linkage between ownership structure of Jordan industrial firm on its dividend policy over the year 2005-2009”.	Descriptive statistic and regression model.	“Institutional ownership and DPS have a significant negative correlation. Additionally, there is a strong inverse relationship between state ownership and dividend payments to shareholders”.
Sharma and	To examine the effect	Dependent	Institutional shareholdings,



Wadhwa (2013)	of ownership structure of BSE 500 listed 457 firms on its dividend policy over the period 2003-2012.	<p>variable- Dividend paid to equity holders,</p> <p>Independent variables- Promoters shareholdings, institutional shareholdings and foreign institutional shareholdings,</p> <p>Control variables- cash flow, net profit ratio and debt-equity ratio.</p>	promoter shareholdings and foreign institutional shareholdings have significant positive association with dividend policy. In addition, the control variables cash flow and net profit ratio have a positive but insignificant relation that is not statistically significant, and another control variable, the debt equity ratio, has an insignificant but not statistically significant relation with the dividend policy.
Al-Nawaiseh (2013)	“To explore the linkage between ownership structure and Dividend policy of ASE listed industrial firms over 2000-2006”.	<p>Tobit or censored regression model.</p> <p>Dependent variables- Dividend yield,</p> <p>Independent variables- leverage, profitability, size, family ownership, institutional ownership, multiple ownership,</p>	The study disclose a significant impact of profitability, size & institutional ownership, positive but insignificant impact of foreign ownership, a negative significant impact of leverage, insignificant negative impact of family and multiple ownership with dividend yield.



		stockholder ownership.	
Arshad et al. (2013)	To examine the linkage of Ownership Structure of Karachi stock exchange listed 12 companies on its Dividend payout over the time period 2007-2011.	Descriptive statistic and correlation analysis. Independent variables- ownership structure which includes Board size and CEO dual role, Dependent variable- Dividend policy which includes Dividend Decision and Dividend payout, Control variable- Size, ROA, ROE, growth, leverage.	The finding of the study shows that ownership structure does not have consistent relation with dividend decision and dividend payout policy as CEO duality effect dividend policy but board size doesn't. It also reveals positive association of dividend payout with size, leverage, ROE & board of director and negative association with growth & ROA.
Bisht and Singh (2015)	"To investigate the effect of ownership pattern on dividend policy of BSE 500 listed 30 companies over the period 2009-2013".	Dependent variable- Dividend paid to equity, Independent variables- institutional shareholders, promoters & foreign institutional	Foreign shareholdings, institutional shareholdings and promoters shareholdings have positive association with dividend policy. Furthermore Cash flow, NP ratio have insignificant less positive association and debt-equity ratio has negative relation with dividend payment.



		shareholders, Control variables- debt-equity ratio, cash flow, net profit ratio.	
Sakinc&Gungor (2015)	To inspect the effect of ownership structure of Istanbul Stock Exchange listed 271 real and banking companies on its dividend policy over the period 2004-2011.	It employs panel data analysis and includes dependent variable- Dividend payout ratio, Independent variables- ownership concentration and ownership composition (Foreign and Managerial ownership), Control variables- EPS, ROA and No. of board of directors.	“It shows a positive relation between concentration of ownership and dividend payments. It also reveals a statically significant negative relationship between family ownership and DPR. A decrease in DPR with expanding management ownership structure, on the other hand, is not statically significant”.
Sindhu et al. (2016)	“To inspect the impact of ownership structure of Karachi Stock Exchange listed 100 non-financial companies on its	Fixed effect model. Dependent variable- Dividend payout, Independent variable-	Managerial ownership has A significant inverse relationship with dividend distribution. Dividend payments have a significant positive link with institutional ownership. There is



	dividend payout over the period 2011-2015”.	Managerial & Institutional ownership, Control variable- tobin’s Q, change in earnings, leverage, firm size, operating cash flow.	no significant association between cash flow and change in profitability, while Tobin's Q and leverage have significant positive correlations with dividend distribution.
Filsaraei and Zarei (2017)	To find out the association of ownership structure of Tehran Stock Exchange listed companies on its dividend policy over the period 2002-2016.	logistic panel model, simple logistic regression and Akaike’s criterion Dependent variable- Dividend policy, Independent variables- Corporate and Institutional ownership, Control variables- Retain earnings, size of firm, profitability, time (profit distribution year), Net income, types of industries, leverage, growth opportunities.	Both the independent variables- institutional & corporate ownership have significant influence on the dividend policy. Furthermore control variables- profitability, time, leverage, retain earnings, growth opportunities & type of industry have significant impact on dividend policy. But the remaining variables- net income & size doesn’t have any significant association with dividend policy.
Berezinets et al.	To explore linkage	Panel data analysis,	Dividend payout with ordinary



(2017)	between ownership structure and dividend policy with ordinary & preferred share of Russian Public Companies over the period 2003-2009.	linear & nonlinear regression model.	share & institutional ownership structure has negative association, Dividend payout with ordinary share & offshore ownership also has negative association. It also reveals that dividend payout with preferred share has no association with ownership structure.
Reyna (2017)	To inspect the ownership structure effect of Mexican Stock Exchange listed 88 firms on its dividend policy over the period 2005-2013.	Econometric model. Dependent variable- Dividend policy, Independent variables- Family ownership, institutional ownership & individual ownership (small blocks of investors), Control variables- Firm's size, value creation, cash flow & volatility of earnings.	Family has negative impact on dividend policy but an institutional shareholder has positive influence on the dividend policy. Furthermore existence of big shareholders has varied relation with the dividend policy.
Obaidat (2018)	To examine the linkage of ownership structure of Amman	Descriptive statistic, Pearson's correlation and	Institutional, Managerial & Foreign ownership has positive association but Ownership



	Stock Exchange listed 64 financial companies on its dividend policy over 2014-2016.	Multivariate regression analysis. Dependent variable- DPR, Independent variables- Institutional, Managerial, Foreign ownership & ownership concentration.	concentration has negative association on dividend policy.
Mardani et al. (2018)	To examine the relation among corporate governance, ownership structure & dividend policy of Indonesian Stock Exchange listed firms over 2014-2016.	Regression analysis. Variables used- DPR, board size, independent board, managerial & institutional ownership	Independent board and managerial ownership have positive association with DPR. Board size and institutional ownership have negative association with DPR.
Iqbal et al. (2018)	To investigate the affect of share ownership structure of IDX listed 21 manufacturing firms on its Firm value & dividend policy over the period 2010-2016.	Smart Partial Least Square. Ownership structure- managerial, institutional and state ownership, Dividend policy- DPR, DPS & Dividend yield,	The dividend policy is significantly impacted negatively by the share ownership structure, whereas the value of the firm is significantly impacted favorably. It also demonstrates how a company's dividend policy significantly enhances its worth.



		Firm value- Tobin's Q, closing price & MBVE.	
Anh and Tuan (2019)	“To find out association between dividend policy and ownership structure of Hochiminh stock exchange and Hanoi stock exchange listed 642 firms over the period 2009-2015”.	Panel Data analysis. Ownership structure- Ownership concentration and Ownership composition.	Ownership concentration, state, institutional have positive association with its dividend payout. But while on other side foreign ownership has no statistics for relation with dividend payout.
Jabeen and Ahmad (2019)	To inspect the effect of ownership structure of Pakistan Stock Exchange listed 15 Cement companies on its dividend policy over 2013-2017.	Descriptive statistics, Pearson's correlation & multiple regressions. Independent variables- Ownership structure (managerial, institutional and individual ownership), Dependent variable- DPR.	On one hand Individual and Institutional ownership have significant effect but on another side Managerial ownership and firm's size have insignificant effect on dividend policy.
Hoang et al. (2020)	“To explore the effect of ownership structure of Hanoi Stock Exchange and Ho Chi Minh Stock Exchange	Regression model, Fix and Random effect Model. Dependent variable- DPR,	State and Institutional ownership have negative impact on DPR which is supported through agency theory. In the similar sense foreign ownership has negative effect on



	listed 21 oil and gas companies on its dividend policy over the time period 2010-2015”.	Independent variable- State, Foreign and institutional ownership, Control variable- leverage, size, ROA, liquidity.	DPR, which is not statistically significant. It also shows positive relation of liquidity on dividend.
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Discussion

The link between dividend policy and ownership structure is the main topic of the current study. According to a study of the pertinent literature, most studies employ ownership concentration, foreign, institutional, management, family, and government ownership as independent factors while using dividend payment as a dependent variable. These studies also take into account variables such as leverage, firm size, ROA, liquidity, cash flow, growth potential, ROE, net profit ratio, and others. Institutional ownership and dividend policy have been found to be positively connected. Institutional shareholding consists of the percentages of shares held by banks, financial institutions, insurance companies, pension funds, and other institutions. Sindhu et al. (2016), Obaidat (2018), Reyna (2017), Anh and Tuan (2019), Bisht and Singh (2015), and Sharma and Wadhwa's findings all support this conclusion (2013). This is supported by the fact that institutional investors own the majority of the company's shares, have strong voting rights, and have a large influence on the dividend payout ratio. The findings, however, are not supported by studies conducted by Hoang et al. (2020), Mardani et al. (2018), Berezinets et al. (2017), and Shubiri et al (2012). Because the institutional owners are creditors to the business, they are more concerned with maintaining their credit, which is supported by the fact that they are creditors themselves. The great majority of studies show that managerial ownership has a poor dividend payout. However, the findings do not agree with those of Mardani et al. (2018), Lace et al. (2013), Obaidat (2018), or Yi-Hua et al (2010).



Studies & Variables	Promotor&					
	Institutional ownership	Foreign ownership	Family ownership	Managerial ownership	State ownership	ownership concentration
Sharma and Wadhwa (2013)	+	+				
Al-Nawaiseh (2013)	sig.	+ (insig.)	- (insig.)			
Arshad et al. (2013)						
Shubiri et al. (2012)	-				-	
Bisht and Singh (2015)	+	+				
Sakinc and Gungor (2015)		-		- (insig.)		+
Sindhu et al. (2016)	+			-		
Reyna (2017)	+		-			
Obaidat (2018)	+	+		+		-
Mardani et al. (2018)	-			+		
Iqbal et al. (2018)	-			-	-	
Anh and Tuan (2019)	+	no relation			+	+
Jabeen and Ahmad (2019)	sig.			insig.		
Hoang et al. (2020)	-	- (insig.)			-	

Table: 1 relation of dividend payouts with variables of ownership structure.

Foreign ownership has positive association with dividend payout. The result are consistent with the findings of Obaidat (2018), Bisht and Singh (2015), Sharma and Wadhwa (2013). It is due to the fact that foreign shareholders have less access to the information pertaining to the company’s performance and market movements. They prefer greater dividend because poor corporate Governance. Hoang et al. (2020) in their study reveals a unfavourable relation of foreign ownership with itsdividendpayout but it is statically insignificant. Anh and Tuan (2019) indicate no linkage of foreign ownership with its dividend payout. Family ownership means largest shareholder is the family. The study conducted by Reyna (2017) reveals a negative association of family ownership with its dividend policy. Al-nawaiseh (2013) also shows unfavourable association family ownership with its dividend policy and but it is insignificant. State ownership means the share percentage held by public authorities and state government. It hasnegative relation with dividend payout. The outcome is in line with the findings of Shubiri et al. (2012), Iqbal et al. (2018) and Hoang et al. (2020). The state owner holds the major shareholding and has greater impact on the firm’s dividend policy. They retained the earnings for reinvestment purpose as it will benefit them in future. But the study conducted by Anh and Tuan (2012) gives inconsistent results.

Ownership concentrationrefers to a situation in which majority of the shares hold by only few shareholders and they can influence firm’s performance for protecting their interest. Largest shareholders pressurise the



manager of firm and minority shareholders to improve firm's performance, which automatically leads to increase in profits and increase in dividend payout ratio. It has positive relation with dividend payout. The outcome is consistent with the research study conducted by Sakinc and Gungor (2015), Anh and Tuan (2019). But the study conducted by Obaidat (2018) contradicts the outcome of positive linkage between dividend policy and ownership concentration.

Conclusion

The link between dividend policy and ownership structure is the main subject of this study. It is based on an analysis of the body of research on the relationship between ownership structure and dividend policy done between 2010 and 2020. Dividend payment is the dependent variable in this study, whereas ownership concentration, institutional, managerial, family, international, and government ownership are the independent variables. Leverage, business size, ROE, liquidity, cash flow, growth potential, and other characteristics are among the controls. The study comes to the conclusion that institutional, promoter, managerial, and foreign ownership have a favorable relationship with ownership concentration and dividend distribution based on the vast majority of studies. However, there is a disagreement regarding dividend distribution and family vs state ownership. This study's main finding is that it provides an overview of relevant studies on the connection between ownership structure and dividend distribution. The disadvantage of this research study is that no statistical methods are employed; instead, it only reviews previous research. Additional research may be done since statistical approaches and procedures produce more trustworthy and fascinating results.

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