

Impact of Ownership Structure on Dividend Payout Policy: An Empirical Study on Listed Plantation Companies in Sri Lanka

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Abstract

Ownership structure is one of the main dimensions of corporate governance. The aim of the study is to examine the impact of ownership structure on dividend payout policy of listed plantation companies in Sri Lanka. Fifteen listed plantation companies were selected as sample by using random sample method and secondary data was collected from the annual report of listed plantation companies in Sri Lanka during the period of 2010-2014. This study considers the ownership structure as independent variable which is measured by individual ownership structure, institutional ownership structure and foreign ownership structure and dividend payout policy as dependent variable which is measured by dividend payout ratio. For the purpose of analysis multiple regressions and Pearson's correlation analysis were performed. The results reveal that foreign ownership structure has a significant impact on dividend payout policy. The study also found that foreign ownership structure is positive significantly correlated with dividend payout policy of listed plantation companies. Further individual ownership structure and institutional ownership structure are not significantly correlated with dividend payout policy. Higher the foreign ownership structure in listed plantation companies, the higher the dividend payout which is preferable for investors and it improves the dividends.

Keywords: Individual ownership structure, Institutional ownership structure, Foreign ownership structure, Dividend payout policy.

1. Introduction

Dividend payout policy is considered as the most important policy in the corporate policies. It is an influential control vehicle to reduce the conflicting interests of the shareholders and managers because shareholders are interested in getting dividends, but managers prefer to retain earnings. Managers want to retain earnings for maintaining higher control over the resources. Corporate governance received huge attention as it deals with the agency problems.

Ownership structure is an important internal mechanism of corporate governance. It is defined by the distribution of equity with regard to votes and capital as well as the identity of the equity owners. These structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage (Jensen and Meckling, 1976). Ownership structure consists of individual ownership structure, institution ownership structure and foreign ownership structure.

Carvalho-da-Silva and Leal (2004) argued that ownership structure is very important and influential factor in determining the efficiency of the market by giving information about two significant things. First, it shows the extent of risk diversification of shareholders. Second, it gives information about the possible agency problems in the management of the corporation.

Dividend payout decision is the primary element of corporate policy and has been viewed as an issue of concentration in the financial literature. The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease, John, Kalay, Loewenstein and Sarig, 2000, p.29).

The issue of dividend policy is a very important one in the current business environment. Dividend policy is the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim&Ziv, 2001). Research into dividend policy has shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time, among firms and across countries (Amidu, 2007).

Many researchers have been conducted in developed countries to find out the relationship between the ownership structures and dividend payout policy but there is no research related to ownership structure and dividend payout policy of listed plantation companies in Sri Lanka. Sri Lanka is developing economy having different cultural values, traits, norms, beliefs, religion, and life style etc. Therefore, the main focus of this study is to investigate the impact of the ownership structure on dividend payout policy of listed plantation companies in Sri Lanka from 2010 to 2014.

2. Research problem

Dividend policies are one of the most issues in modern corporate finance. Ownership structure and corporate governance have a significant effect on investment decisions. Ownership structure and corporate governance negatively affect payout decisions, while a positive effect on investment decisions and financing decisions. Ownership structure and corporate governance has a positive effect on dividend policy, while making investment and financing decisions negatively affect dividend policy. Ownership structure, corporate governance, investment decisions, financing decisions and dividend policy have a significant positive effect on firm value, positive relationship between ownership structure and corporate governance on firm value shows the improvement in agency problems (Beatrice M. Kunga, 2014)

There is considerable debate on how ownership structure affects the dividend payout policy. This study empirically examines the relationship between the ownership structure and dividend policy of Sri Lankan listed plantation companies for the period of 2010-2014. The present study is aimed to investigate the question that “what is the role of the ownership structure of the listed plantation companies on dividend payout policy?”

In order to gain an insight and understand the impact ownership structure on dividend payout policy of listed plantation company in Sri Lanka, the following questions are addressed in the study:

- ❖ To what extent ownership structure impact on the dividend payout policy of listed plantation companies in Sri Lanka?
- ❖ Is there any relationship between ownership structure and dividend payout policy of listed plantation companies in Sri Lanka?

3. Objective of the Study

The main objective of this study is to examine the impact of ownership structure on dividend payout policy of listed plantation companies in Sri Lanka. The secondary objective of this study is to find out the relationship between ownership structures and dividend payout policy.

4. Literature Review

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 conducted in Jordan. The studies examine the relationship capital structure and dividend policy of the Jordanian 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 there 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.

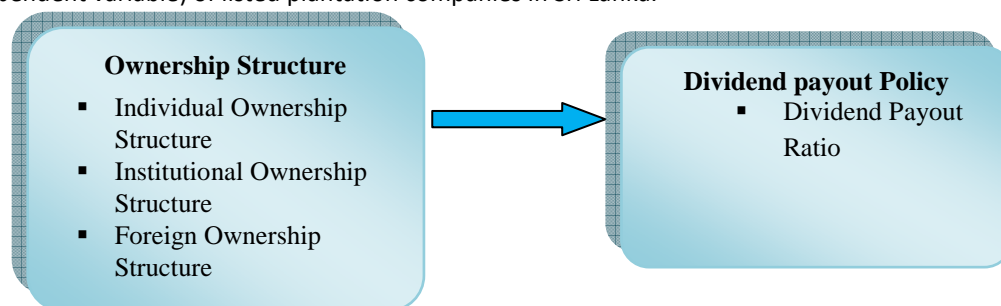
5. Hypotheses of Study

The hypothesis is a tentative statement that shows the conjectured relationship between the variables. The following hypotheses are formulated for this study.

- H₁: Individual Ownership structure has a significant impact on dividend payout policy
- H₂: Institutional Ownership structure has a significant impact on dividend payout policy
- H₃: Foreign Ownership structure has a significant impact on dividend payout policy
- H₄: Individual Ownership structure is significantly correlated with dividend payout policy
- H₅: Institutional Ownership structure is significantly correlated with dividend payout policy
- H₆: Foreign Ownership structure is significantly correlated with dividend payout policy

6. Conceptualization

Based on the literature review and research problem the following conceptual frame work is constructed to show the relationship between ownership structure (independent variable) and dividend payout policy (dependent variable) of listed plantation companies in Sri Lanka.



Source: Developed by researcher
 Figure 1: Conceptual framework

7. Methodology

Research methodology describes research design, research approach, sampling procedure, data sources and mode of analysis. Research methodology focuses on the research process a kind of tools and procedures to be used.

7.1 Data Collection

For this study the secondary data was used to analysis, which has been collected from relevant annual report (2010-2014) of listed plantation companies in Sri Lanka, which were published by Colombo Stock Exchange in Sri Lanka. Further, scholarly articles from academic journals, relevant text books and the internet search engines were also used.

Nineteen plantation companies are listed in Colombo stock exchange under plantation sector. Fifteen companies were selected as sample by using random sampling method.

7.2 Mode of the Study

The following methods chosen to derive the results in this study are based on data analysis.

- Individual ownership - Number of shares held by individuals / Total number of shares
- Institutional ownership - Number of shares held by institution/ Total number of shares
- Foreign ownership - Number of shares held by foreigners/ Total number of shares
- Dividend payout - Dividend per share / Earning per share.

According to the hypotheses developed, this study constructs regression model for carrying out empirical analysis. The following regression model has been developed to analyze the relationship between ownership structure and dividend payout policy.

$$DPO = \beta_0 + \beta_1 IDOWS + \beta_2 INSOWS + \beta_3 FGOWS + \epsilon$$

Where,

$\beta_0, \beta_1, \beta_2, \beta_3$ - Regression co-efficient

- IDOWS - Individual ownership
- INSOWS - Institutional ownership
- FGOWS - Foreign ownership
- DPO - Dividend payout policy
- ε - Error term

7.3 Method of 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 generalizability of the findings. In order to test the research hypotheses; the inferential tests used include the correlation and regression analysis (Velnampy & Nires, 2012).

8. Data Analysis and Discussion

8.1 Descriptive Analysis

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

Table 01: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Individual Ownership	75	.0423	.9006	.1912	.1390
Institutional Ownership	75	.2708	.9438	.7959	.1388
Foreign Ownership	75	.0000	.4051	.0662	.1038
Dividend payout	75	-.11	3.87	.2135	.4789

Table 01 shows descriptive statistics of dependent (Dividend payout policy) and independent (ownership structure) variables used in this study. The dividend payout policy is measured by dividend payout ratio which has average of 0.2135. This has the minimum value of -0.11 and maximum value of 3.87 with standard deviation of 0.4789. Individual ownership has a standard deviation of 0.1390 and minimum & maximum values are 0.423 and 0.9006 respectively. Institutional ownership has minimum value of 0.2708 and average value of 0.7959. At the same time foreign ownership has the minimum and maximum values of 00 and 0.4051 respectively with standard deviation of 0.1038.

8.2 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 02: Correlation Matrix

	IDOWS	INSOWS	FGOWS	DPO
IDOWS	1			
INOWS	-.632** .000	1		
FGOWS	.114 .330	-.438** .000	1	
DPO	.127 .277	-.044 .707	.246* .033	1

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

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

According to the Table 02, correlation coefficient between individual ownership structure and dividend payout is 0.127 which is not significant at 0.05 level, represents there is not significant relationship between individual ownership structure and dividend payout. At the same time correlation coefficient between institutional ownership structure and dividend payout is -0.044 which is not significant at 0.05 level, represents there is not significant relationship between institutional ownership structure and dividend payout. Correlation coefficient between foreign ownership structure and dividend payout is 0.246* which is significant at 0.05 level, represent there is positive correlation between foreign ownership structure and dividend payout.

8.3 Multiple Regression Analysis

The regression analysis is used to know how well the dividend payout policy (DPO) can be explained by ownership structure (Individual ownership structure, institutional ownership structure and foreign ownership structure). Table 03 represents the regression coefficient between dependent variable and independent variable.

Table 03- Coefficient in the Regression Analysis

Model	Unstandarized Coefficients	Standardized Coefficients	t	Sig	
1 (Constant)	-.778	.544		-1.430	.157
Individual ownership	.879	.514	.255	1.711	.091
Institutional ownership	.907	.569	.263	1.593	.116
Foreign ownership	1.532	.593	.332	2.582	.012
R ² = .103					

Dependent variable- Dividend payout

According to the Table 03, R² is 0.103 which shows 10.3% of observed variability of dividend payout is determined by the differences in the ownership structure such as individual ownership, institutional ownership and foreign ownership as well as balance 89.7% of variability of dividend payout is decided by other factors which are not depicted in this model.

Further table 03 explains the impact of ownership structure on dividend payout policy. For individual ownership structure and dividend payout t value is 1.711 and p value is .091 which is more than 0.05. So, individual ownership structure has no significant impact on dividend payout. For institutional ownership and dividend payout t value is 1.593 and p value is .116 which is more than 0.05. So, institutional ownership has no significant impact on dividend payout. For foreign ownership structure and dividend payout t value is 2.582 and p value is .012 which is less than 0.05. So, foreign ownership has a significant impact on dividend payout.

Table 04: Hypothesis Testing

No	Hypotheses	Tools	Supported/ Not Supported
H ₁	Individual Ownership structure has a significant impact on dividend payout policy.	Regression	Not supported
H ₂	Institutional Ownership structure has a significant impact on dividend payout policy.	Regression	Not supported
H ₃	Foreign Ownership structure has a significant impact on dividend payout policy.	Regression	Supported
H ₄	Individual Ownership structure is significantly correlated with dividend payout policy.	Correlation	Not supported
H ₅	Institutional Ownership structure is significantly correlated with dividend payout policy.	Correlation	Not supported
H ₆	Foreign Ownership structure is significantly correlated with dividend payout policy.	Correlation	Supported

9. Conclusion

The aim of this study contributes towards a better understanding of ownership structure in the Sri Lankan context. This study analyses the impact of the ownership structure on dividend payout policy of Sri Lankan listed plantation companies from 2010 to 2014. The results reveal that foreign ownership structure is significantly positive correlated with dividend payout policy and then individual ownership structure and institutional ownership structure are not significantly correlated with dividend payout policy. Further this study also shows that foreign ownership structure has a significant impact on dividend payout policy and individual ownership

structure and institutional ownership structure have no significant impact on dividend payout policy. Moreover this finding is also corroborated by the findings of other recent works such as Suzan Abed et al (2012) and Hamid Ullah et al (2012).

10. Recommendation

As for the investors, they should be aware of the firm's dividend payout policy, in order to choose where to invest in order to invest in a business which applies their preferred dividend plans. Hence, investors who are in favour of regular income may consider investing in companies with the ownership structure which prefers distributing dividends, while investors who are in favour of capital gains may consider investing in companies with ownership structure which prefers retaining the earnings. The finding of the listed plantation companies indicates that there is no significant relationship between the individual or institutional ownership and dividend payout policy. This indicates that individual or institutional ownership doesn't affect the dividend payout and doesn't really affect the investor's decision of whether to invest in a firm for having regular income or capital gains.

The results indicate that higher the foreign ownership in listed plantation companies, the higher the dividend payout which is preferable for investors who desire dividend distributions rather than dividend retentions and higher capital gain. Therefore, in order for investors to choose the suitable firm where they should invest their funds, they need to have some understanding about the firm's ownership structure and a basic understanding of how this ownership structure impacts the firm's dividend decisions, such as the firm's dividend payout policies.

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