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DIVIDEND POLICIES AND OWNERSHIP STRUCTURE: A STUDY OF BSE LISTED FIRMS

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ABSTRACT
Dividend decision is one of the crucial decisions a manager has to make. There are large number of researches focused on the determinants of dividend in developed and emerging countries context. The agency perspective of dividend decisions is a recent development in the area finance. The present study made an attempt to examine the impact different ownership structure on the dividend policies of BSE listed top 50 firm. It is found that, shareholding by minority shareholders, future growth opportunities, and leverage significantly influence on the dividend decisions of the sample firms. In the current study it is also found that, free cash flows have been distributed as dividend, which indicates there is no agency conflict between management and shareholders. Whereas, there is an evidence of agency issues between minority shareholders and majority shareholders.

KEYWORDS
dividend, shareholders, agency conflict, free cash flows, leverage, growth opportunities.

JEL CODES
G32, G35.

1.0 INTRODUCTION
Dividend decision is one of the major decisions a manager has to make in an organization. The dividend decision of firm deals with the retention or distribution of net earnings of a firm. Since shareholders value creation is the major objective of a firm; there are two theoretical strands which address the issue whether value of firm is affected by the dividend decisions of a firm or not. One group of theories argue that the value of the firm is not affected by the dividend decisions, another group of theories argue the dividend decisions influence on the value of a firm.

There are many empirical studies have been conducted to examine whether the dividend decision has an impact on the value of a firm both in the developed economies context and the emerging economies context. Further, there are large number of studies examined the determinants of dividend policies of firms. The agency perspective of a dividend decision is a recent development in the field of finance.

There are two broad categories of agency models, one group of theories argue that, the dividend payouts are a solution for agency conflict between the managers and shareholders(*Easterbrook.,1984)* and solution for agency conflicts between the controlling large inside shareholders and outside minority shareholders. Another group of agency models of dividend policies address that the dividend decisions are substitutes for governance problems in a firm (*Gomes and Novaes.,2001)*. Therefore, there exists a clear evidence that, the type of ownership has an influence on the dividend decisions of firm.

The present study is organized as follows; the first section deals with the introduction, section two deals with the review of related literature, section three is statement of problem and objectives, section four is the methodology, section five focused on the empirical results and discussion and section six deals with the findings, conclusion; and section seven is scope for further research.

2.0 REVIEW OF LITERATURE
2.1 AGENCY CONFLICT AND DIVIDEND DECISION
The agency conflict between the management and the shareholders stem from the separation of ownership and control. The managers who are agents of shareholders are supposed to take decisions such a way that those decisions result in the increase in the firm value. But the managers may not always take such decisions, they may deviate from their vested responsibilities(Jensen, 1986). When there are free cash flows, a firm's management may utilize them for their private benefits by engaging in the empire building activities and sub-optimal investment decisions. Such misappropriation of funds can be mitigated if the free cash flows are distributed(Jensen, 1986).

In the study *Easterbrook (1984)* argues that the dividend payments lead to mitigation of agency problem. As he argues, if a firm pays dividend, it forces the management to go for the capital markets for the funds to finance their new investments. Thus, the management is thoroughly examined by the potential investors before they invest. Therefore, the payment of the dividends mitigates the agency problem between the management and the shareholders.

Crutchley and Hansen (1989) in their study examined whether insider holding leads to lower agency costs by analysing the relation between ownership, dividend policy, and leverage and concluded that manager controls agency costs through financial policy trade-off. *Jensen et al. (1992)* analyse the determinants of cross-sectional differences in insider holdings, debt, and dividend policies of firms. They assume that if the insider owners hold the major shares of the company then management naturally prefers not to declare more dividends. This is consistent with Rozeff's model who proposed that high insider holding acts as a substitute for dividends as agency costs reducing benefit. *Dutta et al. (2000)* extend the prior research of *Jensen et al. (1992)* by examining the impact of the insider ownership level on corporate policy choices.

Farinha (2002) in the study with large sample of 600 UK firms, found that, 'below an entrenchment level, insider ownership and dividend policy can be seen as substitute governance devices, that lead to a negative relationship between these two variables. After such critical entrenchment level, the increase of insider holdings is associated with additional entrenchment related agency costs. Thus, dividend policy may become a compensation monitoring force and accordingly, a positive relationship with insider ownership would be observed.

2.2 OWNERSHIP CONCENTRATION AND DIVIDEND DECISIONS
When the large part of a firm's shares controlled by a single owner or a group of few owners. Such concentration of ownership lead to a close supervision of managements decisions by such shareholders. In the concentrated ownership structure, the controlling shareholder appoints a management team which acts

according to the interest of shareholders. Therefore, the agency conflict between the management and shareholders can be mitigated(Myers, 1984). Thus, in the concentrated ownership and control, the controlling shareholders don't allow the management to misuse the free cashflows, thus, in the higher insider ownership and concentrated ownership and control lead to minimum payout ratio (Kouki M and Guizani M.,2009).
According to the substitute model of dividends developed by *La porta et al (2000),* dividend policy can be seen as a substitute for conflicts of interests between insiders and outsiders. *Zwiebel (1996)* argues that manager's voluntary pays dividends in order to avert. Ownership Structure and Dividend Policy Evidence from the Tunisian Stock Market 45 challenges for control.

3.0 STATEMENT OF THE PROBLEM AND OBJECTIVES
Dividend decision is one of the crucial decisions a manager has to make, the dividend decision of firm has an impact on the value of a firm. Therefore, it is an important task of a manager to have appropriate dividend policy. There are large number of studies have been conducted to examine the different aspects of dividend policy of firms. Some of the studies have examined the determinants of dividend payout of firms, such studies have been conducted both in the developed economies like USA and emerging economies like India. Further, there are certain studies which examine the tax aspect of dividend of firms. The agency aspect the dividend policy of firm is a recent development in the area of finance literature (Kouki m and Guizani M.,2009). There are scant studies those examined, the dividend and agency aspect and test the impact of different ownership structure on the dividend decision of firm. But there are no studies in the recent past which examined the impact of different ownership structure on the dividend payout ratio of firms in the Indian markets. Thus, the present study examines, the impact of different ownership structure on the dividend pay of the firm.
Specifically, the current study has the following objectives:
1. To examine the impact of different ownership structure on the dividend payout of the BSE listed firm.
2. To empirically examine the agency aspect of dividend of BSE listed firms.

4.0 DATA AND METHODS
The present study is based on the secondary data, data for the study is obtained from published sources such as, journal, magazines and other sources, the data of sample firms is called from the capitaline database, concerned firms' websites and annual reports.

4.1 SAMPLING

In the study we have followed purposive sampling technique. The final sample data consist of top fifty BSE listed non-financial private sector firms which are ranked based on their market capitalization as on 31st March,2009. The data collected from 2009 to 2019.

4.2 MODEL SPECIFICATION

Since our objective is to examine the impact of the ownership structure on the dividend pay of BSE listed firms. we have top fifty BSE listed firms whose data is collected from 2009 to 2017. we have dividend payout ratio as exogenous variable.
Initially we conduct the random effect model and fixed effect model(within) after that we conduct Hausman Test which shows the significant correlation of cross section error components with the explanatory variables. Thus we were supposed to conduct fixed effect model. As mentioned above to test whether time effect is significant we conducted Chow test which shows significant time effect, finally we have conducted two -way fixed effect model.
Our model is as follows:
$yit = \alpha_i+\lambda_t+\beta_1 x_{1it}+........+ \beta k x_{kit} + uit,$
where:
- α_i- the individual specific intercept
- λ_t- the time specific intercept
- uit-⁀N$(0,\sigma^2_u)$

4.5 TOOLS

To get the panel results, we use Stata -13 which is widely used statistical software package in the data science field. We conduct our model two -way fixed effect model, that considers both cross section and time effect.
Variables and definition:
1. **Dividend Payout Ratio (DPR):** Dividend Payout Ratio, is measured as percentage of dividend paid to Equity share i.e., DPS/EPS
2. **Free cash-flow(FCF):** A firm's cash flows influence on the Investment behavior(Lensink et al., 2003) and dividend decision. The free cashflows defined as in line with Kim and Lee, (2003); We define free cashflow as operating income before depreciation and amortization/ Lagged gross PPE.
3. **Future growth opportunities (GR):** Firms which have higher growth opportunities tend to may retain their net earnings. To measure the growth opportunities Tobin's q ratio is taken as proxy. The Q ratio is measured as *sum of market value of equity and book value of debt to book value of total assets.*
4. **Leverage (LEV):** The leverage policy of a firms is one of the important factors that influence on the dividend decisions. The leverage ratio is calculated as-*(Long-term debt/Total assets$_{t}$);*
5. **Size:** As the empirical studies on determinants of capital structure reveal, size is an important determinant of financial policies of a firm(Harris and Raviv, 1991; La Rocca et al., 2009; Titman and Wessels, 1988). *Our definition of size of the firm is- ln (Total assets)*
6. **Insider Share Holding (WSH):** Percentage of insiders or controlling shareholders ownership
7. **Institutional Share Holding (ISH):** the percentage of equity owned by institutional investors & Institutional blockholders.
8. **Retail Share Holding (RSH): P**ercentage of equity owned by the retail investors

5.0 EMPIRICAL RESULTS AND DISCUSSION
TABLE 1.1: DESCRIPTIVE STATISTICS

Variable	Mean	Std. Dev.	Min	Max	Observations
DPR	0.38	1.22	0.00	26.70	500
GR	0.46	0.69	0.00	8.40	500
SIZE	9.47	1.33	4.17	13.25	500
LEV	0.25	0.52	0.00	8.07	500
FCF	0.28	2.00	-35.72	7.23	500
ISH	30.44	14.07	0.22	58.62	500
RSH	16.69	10.94	1.56	66.64	500
WSH	52.11	19.91	0.00	84.78	500

The above table1.1 shows that, on the whole mean dividend payout ratio (DPR) is 0.38. it reveals that, on the whole sample firms pay 38 percent of their net earnings as dividends, which is fairly a better payout by the BSE listed firms. The mean future growth opportunity (GR) is 0.46, which depicts the sample firms have better future growth opportunities. The mean Size(SIZE) is 9.47 indicates BSE listed top 50 firms are larger in size. The mean Leverage(LEV) is 0.25 that varies from 0.00 to 8.07 this depicts the sample firms finance 25 percent of their assets from debt, which is fairly lesser. The mean free cash flows are 0.28 that varies from -35 to 7.23 which shows, the sample firms have free cash flows. It is interesting to note that, the sample firms have free cash flows, therefore their dividend payout is also higher. The mean Institutional Investors share is 30.44, the retail shareholders shareholding is 16.69 and the Insiders share ownership is 52.11 percent. Thus, it indicates that, the Insiders share ownership in sample firms is higher followed by institutional shareholders share. As theoretically expected, higher proportion of insider shareholding lead to conflict between majority inside controlling shareholders and outside minority shareholders, that results in less dividend payout.

In the sample firms there is higher shareholding and higher mean payout ratio, that indicates, there is no agency issue between management and shareholders in the sample firms, this may be due to the reputation protection concerns of the inside majority shareholders. Further, such absence of agency issue may be due the higher proportion of institutional shareholding that results in better monitoring and less agency costs.

TABLE 2.1: RESULTS OF FIXED EFFECT MODEL

R-sq: within = 0.0329 between = 0.0378 overall = 0.0307 R-sq: within = 0.0329 corr(u_i, Xb) = -0.2388					Number of obs = 490 Number of groups = 49 Obs per group: min = 10 avg = 10.0 max = 10 F(7,434) = 2.11 Prob > F = 0.0415	
Variable	**Coef.**	**Std. Err.**	**T**	**P**	**[95% Conf. Interval]**	
GR	0.1005**	0.0427	2.3500	0.0190	0.0165	0.1844
SIZE	0.0321	0.0270	1.1900	0.2360	-0.0210	0.0853
LEV	-0.1137**	0.0510	-2.2300	0.0260	-0.2139	-0.0135
FCF	0.0050	0.0064	0.7800	0.4350	-0.0076	0.0177
ISH	-0.0027	0.0033	-0.8100	0.4170	-0.0092	0.0038
RSH	-0.0048*	0.0026	-1.8900	0.0600	-0.0098	0.0002
WSH	0.0010	0.0030	0.3300	0.7420	-0.0049	0.0068
CONS	0.1168	0.3387	0.3400	0.7300	-0.5488	0.7825
F test that all u_i=0: F(48, 434) = 8.10 Prob > F = 0.0000						

*Note: ** significant at 5% level, * significant at 10% level*

As the above table 2.1 shows the F-value is 2.11 and the p-value is 0.000. Thus, we reject the null hypothesis. This reveals that, the independent variables significantly influence on the dividend payout ratios of the sample firms.

The coefficients of future growth rate (0.1005, p-value 0.01), leverage (-0.1137 pvalue-0.02) and Retail shareholding (-0.0048, p-value-0.06) are the significantly influence on the dividend payout ratio of sample firms. The positive and significance value of growth rate indicates that, the firms with higher expected growth rate pay more dividend. This is quite interesting to mention here, since the sample firms have better growth opportunities, they would have retained large portion of profits but, here they distributed as dividend. This may be due to the fact that these firms with higher growth opportunity have better borrowing capacity. Therefore, they distribute large portion of net earnings as dividends.

The negative and statistically significant leverage ratio indicates that; high levered firms pay less dividend due to their higher costs of financial distress. Further, it also, quite important to mention here that, the coefficient of Insider shareholding (WSH) and Institutional Shareholding (ISH) patterns have no influence on the dividend payout ratio of firms. The negative and significant coefficient of Retail shareholding (RSH) indicates, the firms with higher proportion retail shareholding tend to pay less dividend. This is an evident of agency issues between the majority shareholders and minority shareholders.

6.0 CONCLUSION

The agency issue of dividend payout is a new dimension in the field of finance. Based on the past researches, it is identified that, future growth opportunities, size of the firm, leverage, free cash flows, insiders share ownership, institutional share ownership, and retail share ownership are the variables included to examine the agency aspects of dividend payout. The results show that, growth opportunity(GR), leverage(LEV), and retail share ownership (RSH) are the three important variables significantly influence on the dividend payout ratio in the sample firms.

Though there are free cash flows in the sample firms the higher dividend indicates, there is no principal agent conflict between management and shareholders. Whereas, negative and significant value of retail ownership, which is coincided with the higher inside ownership concentration reveals agency issue between the majority and minority shareholders. Thus, it can be concluded that, there is no manager and shareholder related agency conflict in the sample firms. whereas, majority and minority shareholder dividend related agency issue present in the sample firms.

7.0 SCOPE FOR FURTHER RESEARCH

Further research on agency issue of dividend can be conducted to examine impact of different institutional share ownership and retailer investors in Indian Conglomerates.

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