



DIVIDEND BEHAVIOUR OF INDIAN COMPANIES: A CORRELATIONAL ANALYSIS

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ABSTRACT

For the present business firms, the ownership patterns are distinctive by large Shareholder and may influence the dividend payout in a different way . In corporate finance, the agency problem i.e. a conflict between company management and companies shareholder has constantly been considered as potential weakness. The manager has the tendency to engage in unnecessary earnings and payout if possible for the security of their reward and human capital if possible. The main purpose of this paper is to analyze the co-relational association between promoters shareholdings and dividend payout of Sensex companies over a period of 2001-2015 by using a statistical method of correlation analysis.

KEYWORDS: Dividend policy, Promoters Shareholdings, Foreign Institutional Shareholding, Institutional Shareholding, Government Shareholding.

INTRODUCTION

Dividend policy is the lays down the guidelines a company uses to make a decision how much of its earnings it will payout to shareholders. The ownership structure of the Indian companies is distinct from the other countries like USA and UK. In the case of India, large shareholders i.e. Promoters, directors and corporate have enough rights and potential to influence the financial decision of the company other than small investors. Several researchers encompass the inference of dividend policy in determining the worth of the firm however the ambiguity of such research has constantly made this topic as a topic of great debate. The source of such debate has been originating from the theory of Modigliani and Miller (1961), where the strongly argued that payment of the dividend does not affect the value of the firm. At the same time ,Linter (1962) and Gordon (1963) provide the theory named as "Bird-in-the-hand" and stated that in the presence of so

much uncertainty in the world and imperfect information ,high dividend payment will always result in a high value of the firm. In the current scenario, the various research has been done on the dividend policies of the companies but hardly very few literature are available to see the relationship between Shareholding pattern and Dividend payout. In order to fill up the research gap, this paper has proposed to give a solution for the following question for example, How the shareholding pattern of corporate and dividend payout are correlated? In existing theories, Rozeff 1982 argues that payment of dividend yield provide indirect control benefit where shareholder are not engaged energetically in observing the performance of the corporate firm. Easter Brook (1984) argues that corporate firm pays a dividend to solve the agency problem arising from the separation of ownership and control with diffused ownership in a firm. Jensen (1986) makes a

similar argument that manager has their own motive to increase the firm beyond its standard size because an increase in resources under their control leads to increase in their incentives. Hence manager could find sub-optimal investment that benefits themselves but reduce shareholder wealth.

LITERATURE REVIEW

The literature review concerning to factors affecting dividend policy lies in the well-known paper of Lintner (1956) where he discovered that it is the changes in the earnings and the existing dividend rate is the essential determinants of dividend policy of the firms. After this, another well-known paper came into existence which belongs to Modigliani and Miller (1961). They proved that in the presence of a perfect capital market, the dividend decision or the dividend policy of any firm is irrelevant and does not affect the value of the firm.

Rozeff (1982) had commenced the acceptance of agency cost in dividend determinant. He tested the agency theory of Jensen and Meckling (1976) by building a model of optimal dividend payout in which increase in dividends led to decrease agency costs, but raise transaction costs. He demonstrates that dividend payout is negatively related to the percentage of stock held by insiders. Jensen et al., (1992) examined the Joint Determinants of dividends insider ownership of stock and leverage. They argue that dividend is only means of minimizing the inconsistency of interest between Shareholder and manager. After controlling for growth prospects, investment opportunities, differential profitability and they found that dividend has an adverse affect to leverage and insider holding.

Dempsey and Laber (1992) reported that the dividend yield is negatively related to the proportion of stock held by insiders and positively related to the number of common shareholders within the firm. Noronha et al., (1996) examined the relationship between agency cost variables and dividend payout ratios, segmented by the level of the firm's growth opportunities. For firms with low growth opportunities, they report a positive relation among the dividend payout ratio, the presence of outside block holders, and the level of executive incentive compensation

Short et al., (2002) conduct a study considered the first example of using well-established dividend payout models to examine the potential association between ownership structure and dividends policy. By using dividend models of Lintner (1956); Fama and Babiak (1968), conclude that a positive association between

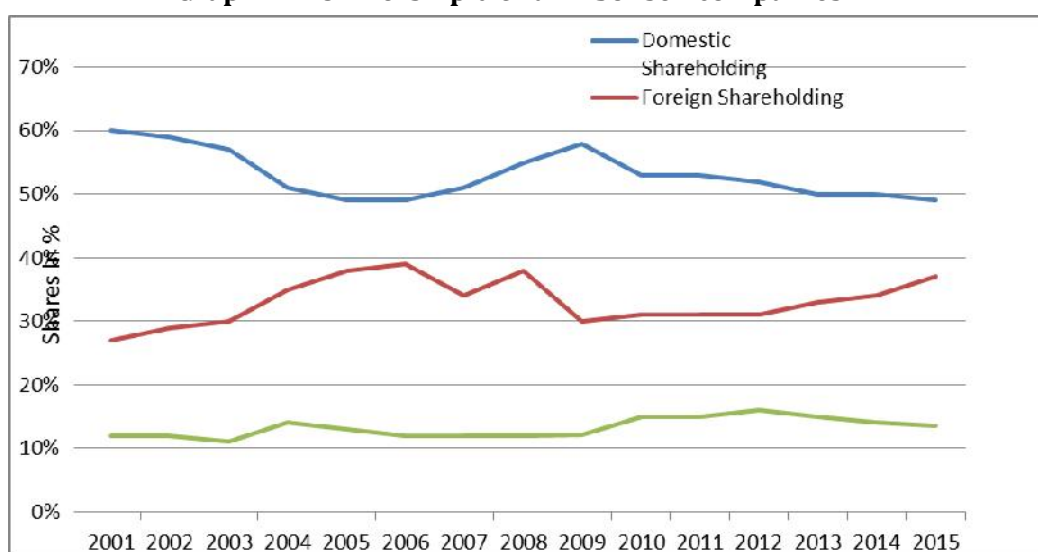
dividend payout policy and institutional ownership may go beyond increasing the dividend payout ratio. They also found some evidence to support a negative association between dividend payout policy and managerial ownership.

Gugler (2003) used OLS technique to examine the association between dividend payment and ownership control structure. He used a panel of 214 non-financial Australian firms for the year 1991 to 1999. The result of his study stated that state-owned firms were occupied in dividend smoothing whereas family controlled firms were not involved in the same. Besides, the state-owned firms were most indisposed and family owned firms were keen to cut dividends. The research also experienced that firms with low growth opportunities optimally expel cash irrespective of who controls the firm.

RESEARCH METHODOLOGY

The research is diagnostic and empirical in nature and uses secondary data from company's balance sheet which is available in bseindia.co.in in the period a of the study is from 2001 to 2015. Researcher includes the sample of those companies that had constantly paid the dividend during period of study. Financial Institution/ Finance companies, Government-owned companies have been excluded. The sample has considered only those companies which have paid final cash dividend every year And have data on the shareholding pattern and other controlling variables for the period of 2001-2015 (both inclusive year). Thus this process gave final sample of 32 companies which provide information as per requirement. The present study analyzed only one variable in detail because the control of the firm lies with director or promoter of the firm and their association influence dividend payment. Thus the objective of this study is to find out the impact of promoters shareholding on dividend disbursement of selected companies. The present study examines the correlation between ownership type, shareholding pattern and dividend amount of the firm. The pattern of Shareholding has been classified as follows:

- ✧ Domestic Holding: Indian Promoters, Financial Institutions, Banks, Mutual Funds Insurance Companies, UTI and Indian Public.
- ✧ Foreign Holding: FIIs, QFIs, FPIs, Overseas Corporate Bodies, NRIs, GDRs and ADRs
- ✧ Government Holding: Central-State Governments and Government Companies

Graph 1.1 Ownership trend in Sensex companies**Table. 1. Co- relational Analysis between Domestic holding and other form of ownership.**

Segments	Year	Foreign Shareholding	Government Shareholding
Overall	2001-2015	-0.76138	-0.4646165
Segment-1	2001-2005	-0.99188	-0.7309783
Segment-2	2006-2010	-0.5744	-0.0064522
Segment-3	2011-2015	-0.90432	0.73365889

Table1. 2. Co- relational Analysis between foreign holding and other forms of ownership

Segments	Year	Domestic Shareholding	Government Shareholding
Overall	2001-2015	-0.761375691	-0.03557
Segment-1	2001-2005	-0.99188225	0.693978
Segment-2	2006-2010	-0.57439586	-0.49494
Segment-3	2011-2015	-0.904323876	-0.89619

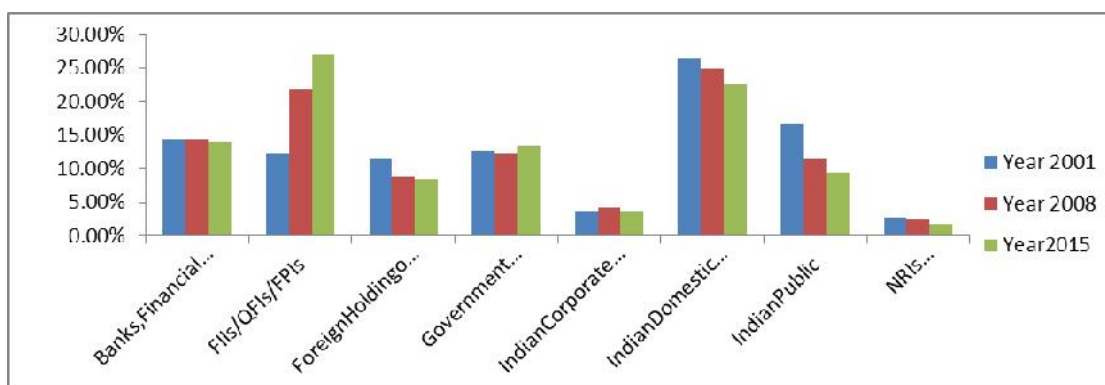
The movement and the subsequent variations in the ownership patterns can be studied into three Segments:

- ◆ Segment 1: Prior to 2008
- ◆ Segment 2: 2008
- ◆ Segment 3: Post 2008

Table-3 Variation in ownership pattern

Share holding patterns	Segment 1	Segment 2	Segment 3
Banks, Financial Institutions, Insurance Cos., MFs, UTI	14.31%	14.43%	13.93%
FIIs/QFIs/FPIs	12.26%	21.69%	27.05%
Foreign Holding other than FII/QFI/FPI/NRI/OCBs including ADRs and GDRs	11.33%	8.85%	8.53%
Government and Government Companies	12.52%	12.16%	13.42%
Indian Corporate Bodies	3.74%	4.14%	3.50%
Indian Domestic Promoters	26.45%	24.85%	22.57%
Indian Public	16.67%	11.38%	9.30%
NRIs and Overseas Corporate Bodies	2.72%	2.50%	1.70%

Source – Data collected from www.bseindia.com

Graph 1.2: Segment wise holding Patterns in SENSEX Companies**Table 4: Correlation (Dividend payments and promoters shareholding)**

Segment 1	-012258
Segment 2	.0119872
Segment 3	.032631

RESULT AND ANALYSIS

Graph 1.1 depicts the trend of ownership structure among selected Sensex companies through the different Segments from 2001-2015. And the graph shows that domestic holding in Indian companies is declining in comparison to the increase in foreign holdings. Foreign and domestic holding patterns are negatively parallel to each other, over these year graph representing almost perfectly negative correlation between the types of ownership pattern. However, the government shareholding shows the positive correlation with domestic in Segment 3 and with the foreign shareholding in Segment 1. On the other hand government shareholding appears steady within the range of 10-15% this signifies the slower growth of government ownership in India and leads to the faster growth of Non-governmental ownership. Graph 1.2 shows the detail explanations of ownership position across the different period.

In table 4 Segment 1 shows promoters shareholding is negatively correlated with dividend payment which means if the promoters have the high degree of control to the percentage of their share, then there would be a very less payment of the dividend or vice versa. However, Segment 2 and 3 have the positive relation between the two and show that the promoters have a little bit impact on dividends payments by the firms.

LIMITATION OF THE STUDY

Unavailability of data for all selected firms during study period. due to this the result may not be accurate as it should be.

CONCLUSION

The present study shows the relationship between various ownership types and dividend payout. And the overall study shows that there exist a negative correlation between different form of ownership. The ownership trend from 2001 to 2007 domestic holding reduce significantly 61% to 49% and on other hand there was a significant increase in foreign holding from 26% to 38%. However, government holding in this period remains constant. In 2008 to 2009 foreign ownership decreased from 38% to 30% but this fall gives them an opportunity to up their stakes from 49% in 2006 to 58% in 2009.

In addition to that, this study also shows the relationship between two variables i.e. promoter's shareholding and dividend payment and shows that there is the association between dividend payment and promoters shareholding.

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