

PHD WORK

Relationship of Ownership Pattern & Dividend policy: A study of Indian private sector banks

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INTRODUCTION

The main base of financial industry is dividends. Investors put their money into the enterprises because they expect that into the future company will pay through the dividends much more, than was previously invested. Almost all enterprise valuations are based on the expected cash flow from the company, in other words - dividends. So, value of companies depends on the future dividends.

The Institute of Chartered Accountants of India: A dividend is a distribution of divisible profit of a company among the members according to the number of shares held by each of them in the capital of the company.

Dividends may be defined as the distribution of the profit in real assets among the shareholders of the firm in proportion to their ownership

Obviously, for the short and medium time investors it would be extremely important to find out future dividend policy because their income will significantly depend on this parameter. This research will be useful primarily to investors because the investor, who first of all thinks about the benefits of his investments when buying certain shares, needs to know all the main factors affecting their value. Despite early research, in modern economic theory it is proven that the value of the company and the welfare of its owners are closely related to the current dividend policy. According to Rozeff (1982), dividend payout increases external financing costs but reduces managerial opportunism costs. Shleifer and Vishny (1997) asserted that, in a situation where major shareholders obtain almost complete control over the firm, they begin to derive private benefits of control in which minority shareholders' participation is denied. There are multiple ways in which minority shareholders' rights can be abused, with Faccio et al.

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(2001) placing particular emphasis on low dividend payments. Conversely, large owners may collude with each other and/or the controlling owner to the detriment of minority shareholders.

These considerations may be important in analyzing dividend decisions in companies with such a shareholder structure. Furthermore, the largest shareholder's identity impacts on the dividend decisions made by companies (Bebchuk, 2005; Faccio et al., 2001; Kouki and Guizani, 2009; Kumar, 2006; La Porta et al., 2000). Dividend payout decisions are one of the fundamental components of corporate policy and have been viewed as an issue of interest in the financial literature. Dividend, reward to stockholder for their investment and risk bearing, depends on various factors. Foremost of these determinants are level of profits, financing constraints, investment opportunities, size of the firm, and pressure from shareholders and regulatory authorities.

2. Purpose of study

- The objective of the study is to check the impact of ownership pattern on dividend policy.
- To investigate the causality between two variable in selected panel data series (To check the Granger- Causality).
- To open new avenues for further researches.

3. Research methodology

1. Dependent variable

Dividend payout ratio

2. Independent variable

Variables of the Study Foreign Institutional Investor (FII) , Domestic Institutional Investor (DII) , Promoter holding -. Share holding by general Public and dividend payout ratio.

3. Control Variables

Firm Size (Firm Size): Size of the firm has been taken as a control variable. It has been estimated as the total number of directors present in the

Board of Directors in the year under study.

Return on Equity (ROE): Return on Equity has been calculated as Net Profit/ Share holder's equity.

4. Empirical Model

The Linear Regression Model is used to examine the hypotheses. From previous studies and past review of literature it is seen that this model has been widely used and fairly tested in order to examine the effect of ownership pattern on dividend policy. Consistent with this, the authors have developed the empirical model as follows:

$$DPS_{it} = \alpha + \beta_1 DII_{it} + \beta_2 FII_{it} + \beta_3 PH_{it} + \beta_4 Holding\ by\ general\ public_{it} + \beta_5 FIRM_SIZE_{it} + \beta_6 ROE_{it} + \beta_7 LEVERAGE_{it} + \epsilon_{it}$$

5. Hypotheses

H01 There is no significant impact of ownership pattern on dividend policy.

Ha1: There is a significant impact of ownership pattern on dividend policy

H02: There is no Granger- Cause between the variable

a: promoter's holding \Leftrightarrow FII

b: promoter's holding \Leftrightarrow DII's holding

c: promoter's holding \Leftrightarrow shareholding by general public

d: FII's holding \Leftrightarrow promoter's holding

e: FII's holding \Leftrightarrow DII's holding

f: FII's holding \Leftrightarrow shareholding by general public

g: DII's holding \Leftrightarrow promoter's holding

h: DII's holding \Leftrightarrow FII's holding

i: DII's holding \Leftrightarrow shareholding by general public

j: shareholding by general public \Leftrightarrow DII's holding

k: shareholding by general public \Leftrightarrow promoter's holding

l: shareholding by general public \Leftrightarrow FII's holding

6. Research design summary

DATA ANALYSIS

Following test is conduct-

1. Descriptive test is conduct
2. Granger Causality test for stationarity
3. Unit root test
4. Correlogram Residual Test of Stationary
5. Breusch-Godfrey Serial correlation LM test
6. Heteroskedasticity test- Breusch Pagan- Godfrey
7. Histogram normality test
8. Regression analysis

IMPLICATIONS OF THE STUDY

1. For the Banks- With the help of this research banks and policy makers can know the pattern of ownership concentration -like Promoter's Holding, FII's Holding, DII's Holding, Share Holding by General public (independent) and other's person holding and impact on Dividend payout ratio extended and distributed and thus, it can also helpful to manage the impact of Ownership concentration and Dividend payout ratio.
2. For the Research Scholar - The study will be useful to student who are interested to know the pattern of ownership concentration -like Promoter's Holding, FII's Holding, DII's Holding, Share Holding by General public (independent) and other's person holding and impact on Dividend payout ratio The residual are normally distributed and Return on Per Share spread and worth of the share and firms value. This research study may be useful to open some new vistas for the further researches in related area.
3. For the Policy Maker - This study will help to understanding the relations between ownership pattern and dividends policy. In order to attract the foreign investment and to protect these capitals the researcher recommends providing the needed clear or transparency and relevance and disclosure for the securities market and

provide necessary information to investors and policy maker.

LIMITATIONS OF STUDY

1. This study, like many others has some limitation, but they did not have a substantial impact on finding there is no suitable study or ideas on the subject. However, as previously stated, the ownership share in different organization.
2. Only fourteen private sector bank infirmaries volunteered to involvement in this study, and all data was collected over the course of quarter of 11 years. However, the review has constraints that ought to be thought about while checking the conclusions. First, although the review the causality between the variables in selected 11 years data uses time series panel data.

CONCLUSION

Following are final conclusion of the study

1. Dividend per Share, Promoter's holding, Foreign Institutional Investor, Domestic Institutional Investor, General Public Share-holding and Others Holding has no unit root.
2. Dividend per Share spread has no unit root.
3. There is no autocorrelation in the data and it explained the stationarity of the residuals
4. Residuals are not serially correlated
5. The residuals are not Heteroskedasticity.
6. The residuals are normally distributed