

IMPACT OF INSTITUTIONAL OWNERSHIP AND INDIVIDUAL OWNERSHIP ON DIVIDEND POLICY OF 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 this study is to examine the impact of institutional ownership and individual ownership on dividend policy of listed plantation companies in Sri Lanka. Fifteen listed plantation companies were selected as a 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 institutional ownership and individual ownership as independent variables and dividend 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 institutional ownership and individual ownership have no impact on dividend policy.

Keywords: Dividend Policy, Individual Ownership, Institutional Ownership

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 & Meckling, 1976). Ownership structure consists of individual ownership structure and institution ownership structure.

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).

The tea plantation sector of Sri Lanka has been in stakeholder dialogues in the recent past due to its economic and social importance. Economically, this sector makes a significant contribution to the economy of Sri Lanka in terms of employment generation and foreign exchange earnings. This sector is socially important as these resident workers have been geographically and socially isolated from the other sectors of the economy for over 150 years (Jayawardena, 1984).

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

There is considerable debate on how ownership structure affects the dividend 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 institutional ownership and individual ownership of the listed plantation companies on dividend policy?”

In order to gain an insight and understand the impact of institutional ownership and individual ownership on dividend payout policy of listed plantation company in Sri Lanka, the following question is addressed in the study:

- ✧ To what extent institutional ownership and individual ownership impact on the dividend 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 institutional ownership and individual ownership on dividend policy of listed plantation companies in Sri Lanka.

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. Al-Shubiri et al (2012) presented a study “The Relationship between Ownership Structure and Dividend policy: An Empirical Investigation”. The study was conducted in Jordan. The studies examined the relationship of capital structure and dividend policy of the Jordanian industrial firms for the year of 2005 – 2009. 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.

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. 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.

5. Conceptualization

Based on the literature review and research problem the following conceptual framework is constructed to show the relationship between ownership structure (institutional ownership and individual ownership) and dividend policy of listed plantation companies in Sri Lanka.

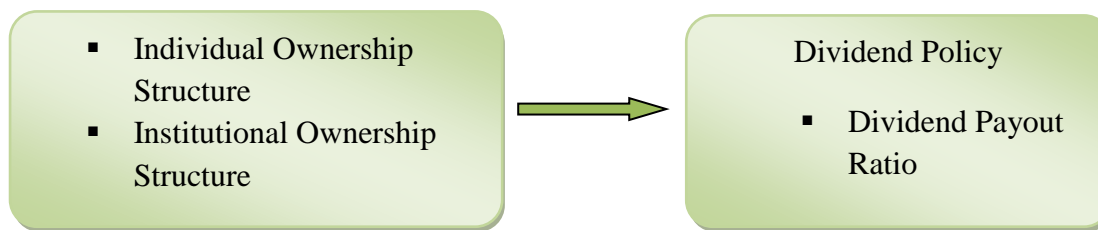


Figure 1: Conceptual framework

6. 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: Institutional ownership has a significant impact on dividend policy
- H₂: Individual ownership has a significant impact on dividend policy
- H₃: Institutional ownership is significantly correlated with dividend policy
- H₄: Individual ownership is significantly correlated with dividend policy

7. Methodology

Research methodology describes research design, research approach, sampling procedure, data sources and mode of analysis. Research methodology focuses on the research process and the 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 were 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
- 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 policy.

$$DP = \beta_0 + \beta_1 \text{INSOW} + \beta_2 \text{IDOW} + \epsilon$$

Where,

- $\beta_0, \beta_1, \beta_2$ - Regression co-efficient
- INSOW - Institutional ownership
- IDOW - Individual ownership
- DPO - Dividend 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 & Niresh, 2012).

8. Data Analysis and Discussion

8.1 Descriptive Analysis

Descriptive analysis describes the characteristics of institutional ownership, individual ownership and dividend 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 1: Descriptive Statistics

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

Table 01 shows descriptive statistics of dependent (Dividend policy) and independent (Institutional ownership and individual ownership) variables used in this study. The dividend policy is measured by dividend payout ratio which has an 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. Institutional ownership has minimum value of 0.2708 and maximum value of 0.9438.

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.

According to the Table 02, correlation coefficient between institutional ownership and dividend policy is -0.044 which is not significant at 0.05 levels, represents there is not significant relationship between institutional ownership and dividend policy. At the same time, correlation coefficient between individual ownership and dividend policy is 0.127 which is not significant at 0.05 levels, represents that there is not a significant relationship between individual ownership and dividend policy.

Table 2: Correlation Matrix

		INSOW	INOW	DP
INSOW	Pearson Correlation	1	-.632**	-.044
	Sig. (2-tailed)		.000	.707
	N	75	75	75
INOW	Pearson Correlation	-.632**	1	.127
	Sig. (2-tailed)	.000		.277
	N	75	75	75
DP	Pearson Correlation	-.044	.127	1
	Sig. (2-tailed)	.707	.277	
	N	75	75	75

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

8.3 Multiple Regression Analysis

The regression analysis is used to know how well the dividend policy (DP) can be explained by ownership structure (Institutional ownership and Individual ownership). Table 03 represents the regression coefficient between dependent variable and independent variables.

Table 3: Coefficient in the Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.061	.486		-.126	.900
	INSOW	.208	.520	.060	.401	.690
	INOW	.569	.519	.165	1.096	.277
R ² =0 .018						

a. Dependent Variable: Dividend policy

According to the Table 03, R² is 0.018 which shows 1.8 % of observed variability of dividend policy is determined by the differences in the ownership structure such as individual ownership and institutional ownership, as well as balance 98.2% of variability of dividend policy is decided by other factors which are not depicted in this model.

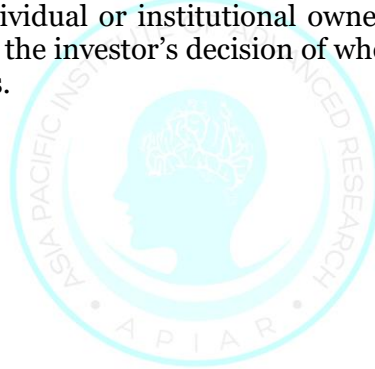
Further, table 03 explains the impact of individual ownership and institutional ownership on dividend policy. For institutional ownership and dividend policy t value is 0.401 and p value is .690 which is more than 0.05. So, institutional ownership has no significant impact on dividend policy. For individual ownership and dividend policy t value is 1.096 and p value is 0.277 which is more than 0.05. So, individual ownership has no significant impact on dividend policy.

Table 04: Hypothesis Testing

No	Hypotheses	Tools	Supported/ Not Supported
H ₁	Institutional ownership has a significant impact on dividend policy.	Regression	Not supported
H ₂	Individual ownership has a significant impact on dividend policy.	Regression	Not supported
H ₃	Institutional ownership is significantly correlated with dividend policy.	Correlation	Not supported
H ₅	Individual ownership is significantly correlated with dividend payout policy.	Correlation	Not 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 institutional ownership and individual ownership on dividend payout policy of Sri Lankan listed plantation companies from 2010 to 2014. The results reveal that institutional ownership and individual ownership are not significantly correlated with dividend policy. Further, this study also shows that institutional ownership and individual ownership have no significant impact on dividend policy. This indicates that individual or institutional ownership doesn't affect the dividend policy and doesn't really affect the investor's decision of whether to invest in a firm for having regular income or capital gains.



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