



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).