

Impact of Ownership Structure on Dividend Payout Policy: An Empirical Study on Listed Plantation Companies in Sri Lanka

Saseela Balagobei^{1*} Thiviya Thiruchchenthurnathan²

1. Senior Lecturer, Department of Financial Management, Faculty of Management Studies and Commerce, University of Jaffna
2. Department of Financial Management, Faculty of Management Studies and Commerce, University of Jaffna

Abstract

Ownership structure is one of the main dimensions of corporate governance. The aim of the study is to examine the impact of ownership structure on dividend payout policy of listed plantation companies in Sri Lanka. Fifteen listed plantation companies were selected as 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 the ownership structure as independent variable which is measured by individual ownership structure, institutional ownership structure and foreign ownership structure and dividend payout 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 foreign ownership structure has a significant impact on dividend payout policy. The study also found that foreign ownership structure is positive significantly correlated with dividend payout policy of listed plantation companies. Further individual ownership structure and institutional ownership structure are not significantly correlated with dividend payout policy. Higher the foreign ownership structure in listed plantation companies, the higher the dividend payout which is preferable for investors and it improves the dividends.

Keywords: Individual ownership structure, Institutional ownership structure, Foreign ownership structure, Dividend payout policy.

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

Carvalho-da-Silva and Leal (2004) argued that ownership structure is very important and influential factor in determining the efficiency of the market by giving information about two significant things. First, it shows the extent of risk diversification of shareholders. Second, it gives information about the possible agency problems in the management of the corporation.

Dividend payout decision is the primary element of corporate policy and has been viewed as an issue of concentration in the financial literature. The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease, John, Kalay, Loewenstein and Sarig, 2000, p.29).

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). Research into dividend policy has shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time, among firms and across countries (Amidu, 2007).

Many researchers have been conducted in developed countries to find out the relationship between the ownership structures and dividend payout policy but there is no research related to ownership structure and dividend payout policy of listed plantation companies in Sri Lanka. Sri Lanka is developing economy having different cultural values, traits, norms, beliefs, religion, and life style etc. Therefore, the main focus of this study is to investigate the impact of the ownership structure on dividend payout policy of listed plantation companies in Sri Lanka from 2010 to 2014.