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Original Research Article

INFLUENCE OF STAKEHOLDERS INTEGRATION ON DIVIDEND PAYOUT RATIO COMPANIES ACCEPTED IN THE BOMBAY STOCK EXCHANGE

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Abstract:
In the context of financial management and corporate financial management issues, the relationship between shareholders (ownership structure) on the company's payout ratio is an important issue .The purpose of this study is to answer the question whether the composition of shareholders in the company effects on dividend payout ratio, if so, is it positive or negative, and how much. Then, it is considered the focus on the composition of shareholders and two components were defined for the were as follows: The amount of the major shareholders Ownership shareholder and the amount of the minority shareholders Ownership. Geographic scope of the study includes companies accepted in the Bombay Stock Exchange Group A and its time domain is from 2006 to 2011. The results indicate that the Bombay Stock Exchange, there is a positive relationship between a major shareholder ownership and dividend payout ratio and there is a negative relationship between the minority shareholders ownership and dividend payout ratio.

Keywords: Ownership structure, composition of shareholders, dividend payout ratio, return, major shareholders, minority shareholders.

Introduction:

Discussion of dividends and how to paid or not paid is widespread debates for the shareholders every year by the end of the financial year and be closer to the general assembly of common shareholders time. Always between the directors and major shareholders on the one hand and thousands of small investors, on the other hand there was a conflict over the dividend .The company is faced with several group of investors. Those who have invested in the company are waiting to receive dividend, those who have invested in the company and demand for the value and those who added look from outside of the company and judge by dividend policy about its totality. Several factors influence the dividend payout ratio that extensive

Research has been done on them. One of the important factors that affect the dividend, the

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ownership structure of the company. In this study we intend to examine that whether composition of shareholders of the companies in the Bombay Stock Exchange affects their dividend policy or not if so, this impact is to what extent and what direction and what aspects of ownership structure can be effective. To review the company's dividend policy, we consider the dividend pay out ratio as a measure of dividend policy and for the ownership structure was considered also Shareholders distribution dimensions including major and minority shareholders and has been reviews its effect on the dividend.

Research background:

So far, much research has been done on the relationship between ownership structure and its impact on profitability, productivity, performance and dividend payout ratio.

Remeli Mezena (2010) in his study titled "Ownership structure and dividend policy", study this issue with the evidence of companies in Malaysia. He examines the impact of major shareholders on dividend policy in Malaysian company in 2002 and 2006. Results showed that there is a direct relationship between the major shareholders and the dividends payout ratio.

Mohammad Soleiman (2010) in his study titled "Ownership structure, board composition and stock dividend policy "examining evidence from Saudi Arabia showed the importance of issue. This study sought to determine the effect of ownership structure and board composition on the dividend policy.

Reviewing the registered companies in the country between 2006 and 2008 found a significant positive relationship between institutional ownership, board size, dividend and dividend payout ratio. The results emphasized that firms with higher institutional ownership, pay higher dividend.

Accordingly, institutional shareholders prefer dividends to capital gain and this is due to the tax status of institutions in the U.S.

Zeckhauser and Pound 1990 stated that institutional shareholders, put the companies under pressure to pay more dividends. They prefer dividends pay out to keep the cash because the People within the organization may waste free cash. In other words, the shareholders to counter the loss of surplus funds and reduce the agency costs force the management to distribute more dividends. But unlike the shareholders, managers are reluctant to pay dividends and instead prefer to keep control of resources. Consequently, according to this theory, the increase in institutional ownership, the greater is the demand for dividend distribution.

Omneya Abdelsalam, Ahmad Masri, Sabri Alsajini reviewed the dividend policies in an emerging capital market. They were investigated using the data from 2003 to 2005 of 50 Egyptian companies the effects of the board composition and ownership structure on payout policy using the regression method. In this study, two variables were used for dividend policy: The Company's decision to dividend payout and the amount of the dividend. For the combination of the board was used the three variables, board size, board independence and its dual role. Four variables were used for the ownership structure.

The managerial ownership ratio, the largest shareholder ownership ratio, Ownership of institutional shareholders ratio and free float shares and profitability were used as control variables. Results showed a significant positive relationship between institutional ownership and company performance with decisions and dividend payout ratio. The results also show that firms with high return on equity and greater institutional ownership share greater institutional ownership. There is no significant relationship between board composition and dividend policy and dividend ratio.

Kimi Harada and Pascal Guin reviewed the impact of ownership structure on dividend policy of Japanese companies. The results showed a negative relationship between ownership concentration and dividend payout rates.

In firms with concentrated ownership are less likely that with increasing the profitability, increase cash profits and even with the increasing investment opportunities, will be cut the payout of this profits. Big corporate in addition to hading high debt ratio had the performance and low interest rates.

Trojunski (2004) studied payment policy of English companies accepted in London Stock Exchange during 1990.The main result of their study was that the dividend policy in the UK is significantly associated with a property companies. Strong leaders are able to weaken the positive relationship between the firm profitability and the dividend ratio. At companies that have a strong bloc coalition, dividend decreases. On the other hand, a strong coalition of financial institutions and industrial companies among the shareholders significantly reduces relationship between profitability and dividend. In general, the presence of strong block holders or coalitions of large shareholders (especially executives, financial institutions and industrial companies) undermine the relationship between the corporate profits and dynamics. Michel brown and Anjan Thakur (1990) conducted a study on the relationship between share holders and dividend policy preferences. Their evidence showed that the majority shareholders, approved dividend to minority shareholders. For larger companies, the majority of shareholders who prefer or redeem their shares in the biggest companies are offered share redemption. The two researchers were summarized as follows: 1) Companies pay small through dividend payments, pay modest through there redemption of shares in the open market and pay high through a share redemption propose.2) the personal income tax rate is not from the dividend, minority shareholders will prefer dividend, while bloc stakeholders *prefer share redemption3) price reaction to share redemptio*n announcement has a negative relationship with too much payments. Michael Berkeley, Kliford Heldrans and Denis Sheehan (2003) tested the hypothesis "There is a positive relationship between the company's shareholders (institutional) ratio and dividend.

Ravi Jain examining institutions like banks, insurance companies, government funds, pension funds and charitable trusts and during 1996-1989 periods showed that individual investors prefer to buy stocks that have higher dividend and invest in companies that are more profit sharing.

Qiang Li and Guolianghuang reviewed the impact of institutional ownership on dividend policy of Chinese companies. In this paper, the researchers found that institutional ownership is positively related to dividend, that institutional investors have a greater percent. Managers, will divided more profits. Low dividend policy damage, the interests of moderate and minor shareholders will lead to gambling behavior in the capital market. They found that this would create a barrier to the development of China's capital market. Finally, they suggest Chinese companies should apply those institutional investors [11]. Seyed Jalal Sadeg Hisharif and Hojat Bahadori study was in 1388. In this study, 41 assented companies in Tehran Stock Exchange were included as sample. The four components was defined for composition Shareholders including: amount of the largest shareholder Ownership, the amount of five greater shareholders ownership, the amount of institutional shareholders ownership and amount of real stakeholder ownership. Thus this study had 4hypothesis.To control for other factors affecting the dividend payout ratio, earnings per share, revenue growth rates from sales of company and firm size were considered as control variables. In this study, was performed statistical analysis by using Multivariate Regression and Kolmogorov–Smirnov test. The results showed that the amount of five great shareholders ownership had a positive effect on divided payment ratio.

That is the companies that most of their ownership is owned by great stakeholders ,pay more dividend than the companies have ownership dispersion and concentration on the ownership will increase the dividend payout ratio in the company.It was confirmed Influence of shareholders being institutional on the dividend payout ratio in the company. That is the more institutional stakeholder ownership in a company, the more dividend payout ratio at that time. On the other hand, the more true stakeholder ownership the less dividend payout ratio [12].

Indian share company structure like other emerging markets is composed mainly of large shareholders. As a result, larger shareholders more influence on corporate decisions, especially decisions regarding dividend. Indians use traditional tax policy in which each company and shareholders pay taxes individually. That is, the companies pay specified rate of tax on corporate profits and shareholders are also separately pay taxes on dividends received from the Company.

In fact, companies are following the double taxation system in India. In such circumstances, the shareholders prefer receiving low cash profit rather than benefit from Company stock sales have raised the price. In India, companies fund from financial institutions and these institutions themselves are among company stakeholders. So, these financial institutions have access to inside information of the company and that is the factor decreases the importance of the dividend as the financial health of the company. In India, the tax on dividends equally (constant) is 10%, that in general have been removed recently. If dividend paid to compensate for the lack of capital, may be fruitful. However, after payment of dividend the stock price decreases.

Jayeshkumar (2003) studied the possible relationship between ownership structure, corporate governance and dividend policy of the companies. His research showed that there is no potential relationship between corporate governance structures. He outlined the dividend models in India and also examined payment behavior through dividend and its relationship to ownership structure using the payout dividend ratio and described ownership structure of the 2000 company in India over the period2000-1994.The data used for analysis in this study includes all manufacturing firms registered with the Bombay Stock Exchange (BSE). Financial and services firms were not included in the study because, dividend policy of the company was largely influenced by external factors. Variables in this study include: The ratio of dividend payments, management ownership, institutional shareholders ownership, foreign shareholders ownership, company ownership and the control variables include: Income growth rate, debt ratio and growth rate of sales. In this study, the dividend growth rate was used as the dependent variable. Jayesh Kumar described the observed behavior using the L intner dividend model including FAM و PAM (1956), WM (1966), Fama & Bayak ETM (1968) and Eivazian et al PM (2003). He concluded that the ownership structure is of the most important factors affecting dividend policy, however, that effect is different in different levels and types of business owners and the ownership structure does not affect the uniformity of the dividend payments. He also found evidence of affiliation of the dividend to past dividend. The relationship between the dividend and the profit orientation, debt ratio and investment opportunities were positive. While this relationship was negative for dividends and institutional ownership. There is also evidence that the there is not relationship between foreign ownership and dividends [13].

Research in 2000 was studied as corporate governance and dividend payout ratio in India, Hindi and companies during 1994 to 2000. The results indicate a positive relationship between earnings, earnings trends and investment opportunities, the negative relationship between debt ratio and profitability as well as the positive relationship between company ownership and dividend payment while the institutional ownership has an adverse effect on the dividend [15].

Research hypotheses.

This study has two hypotheses as follows:

First hypothesis: the major shareholders ownership impact on the payout dividend ratio of companies accepted in Bombay Stock Exchange

Second hypothesis: minority shareholders ownership ratio impact on the payout dividend ratio of companies accepted in Bombay Stock Exchange.

In this study the "Shareholders composition "as an independent variable" and "payout dividend" is considered as the dependent variable. Shareholders composition variable itself includes two indicator variables: percentage of the major shareholders ownership. Dividend payout ratio is obtained from dividing dividend per share (DPS) on earnings per share (EPS). To control the effect of other factors on dividend payout ratio, "earnings per share", "sales growth", "size", "debt" and "concentration of ownership" are considered as control variables.

Study method:

In this analysis, all companies accepted on the Bombay Stock Exchange Group A, except investment and holding companies during the period from 2006 to 2011 areas the statistical population. Companies accepted on the Bombay Stock Exchange Group A are most active companies in Bombay Stock Exchange. Among the group A companies have been selected the companies that traded in the period15 to31 March and have not changed financial year that finally were selected 62 companies.

Exhibit 1: Table of sample size distribution indifferent industries (Bombay Stock Exchange)

% Of samples	Samples number	Group	
16	10	Food and pharmaceutical industries	1
8	5	automotive and parts industrial	2
19	12	electricity, oil, gas and mining industries	3
10	6	steel and cement industries	4
11	7	chemical, plastics, cellulose	5
36	22	Other Industries	6
100	62	Total	7

Data analysis and results:

In this study, to determine the relationship between the dependent variable and independent variables used getting regression and will for man equation in which the effect of the independent variable on the dependent variable is measured. Given the operational definition of the dependent variable and the independent variables, the basic model of the study will be tested as follows. The model estimate and test by control variables:

$$PRit = B0 + B1\ OSit + B2EPSit + B3Git + B4SIZEit + B5DRit + B6CONit + Vit$$

(Payout dividend ratio of firm i at time t)= B0+ (shareholders composition of the firm i at time t) + (epsfirm i at time t) + (sales growth, the company i at time t) + (size of firm i at time t) + (the ratio of debt to firm i at time t) + (ownership concentration of the company i at time t) + error

We use F test for equations significance testing and T test for equation coefficients. Two statistical hypotheses were performed using SPSS software and using ANOVA analysis of variance and t test.

.**Exhibit 2**-Results of regression analysis for hypotheses result is summarized in table2.

Significance level		Significance level	T-statistics	Coefficient	Model variables	hypothesis Name
.000	29.120	.002	3.093	.137	Amount of Major Shareholders Ownership	First
		.000		.437	Earnings per share	
		.049	1.976		Company Growth	
		.000			Company Size	
		.556		.026	Debt ratio	
		.000	3.762	.166	Ownership concentration	
.000	29.120	.002	3.093	.166	Amount of minority shareholder ownership	Second
		.000		.137	Earnings per share	
		049	-1.976	-.087	Company Growth	
		.000	6.46	.286	Company Size	
		.556	.589	.026	Debt ratio	
		.000	3.762	.166	Ownership concentration	

According to Exhibit 1, we consider to the statistical description of each hypothesis separately:

The first hypothesis test:

Significant level of F, equals to 0/000.Thisvalue is less than0/05, so the null hypothesis is rejected at the95% confidence level, means, at95% confidence level there is a significant model. The t-statistics for the ownership of the major shareholder equals with 3/09 (significant and positive). The significance level (sig) for major shareholder ownership level equals 0/026 that is less than0/05.Thus, assumingthatH0is rejected andhypothesisH1is verified against it. Also, given that the standardized coefficient (Beta) is equal to 0/137, thus, there is a positive relationship between the level of major stock ownership and dividend payout ratio, so it has a positive and significant relationship with the response variable. Generally, states that the model is significant, we can conclude that the first hypothesis is confirmed.

The second hypothesis test:

F Significance value equal to 0/000. This value is less than 0/05, so, the null hypothesis is rejected at the 95% confidence level, means, at the 95 percent confidence level there is a significant model. The t-statistic for the amount of major share holder ownership is equal -3/09 (significant and negative). The significance level (sig) for the major shareholder ownership is equal to 0/02 stands less than 0/05. Thus, assuming that H0 is rejected and hypothesis H1 is verified against it; also, given that the standardized coefficients (Beta) are equal -0/137 so there is a negative relationship between the minority shareholder ownership and dividend payout ratio .Thus, this variable has a negative and significant relationship with the response variable. Generally, states that the model is significant, and we can conclude that the fourth hypothesis is confirmed.

According to the above, can be said that major the amount of shareholder ownership have a positive affect the accepted companies on the Bombay Stock Exchange. From the above discussion it can be inferred that in Stock Exchange, dividend is important issue for the major and minority shareholders. Most of the major shareholders of the Bombay Stock Exchange to identify their accounts are interested in dividend. This shareholders , however know that the companies need to finance their liquidity, but, still are not urge to share the profits, means major shareholders not having the long-term goals in Bombay Stock Exchange not in tend to distribute profits. Minority stakeholders are small shareholders and have less power and control on managers; However, this hypothesis is suggests a negative influence of minority shareholder ownership on the payout dividend ratio in the accepted company on the Bombay Stock Exchange. Also, in Bombay Stock Exchange because minority shareholder form the composition of many shareholders and the list of shareholders, they have a higher percentage of shares, so, they have role involved in community decisions to distribute or not to distribute the profits, thus ,considering the negative impact of minority shareholders on the payout dividend is indicative of long-term goals. There is a negative relationship between the minority shareholders ownership and the payout dividend. The minority shareholders have different trends, some of them account on their dividend and some are just looking for are turn on the share price fluctuation. High risk and lack of stable economic conditions and changes in tariffs and that will affect corporate earnings led investors to make investments with short-term horizons. In the current market conditions, due to accounting procedures and the existing risk many share holders are interested in cash dividend.

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