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IMPACT OF FIRM'S OWNERSHIP STRUCTURE ON ITS DIVIDEND PAY-OUT POLICY: EVIDENCE FROM INDIA

Dr. Nahila Nazir

Abstract: This study examines whether there exists any evidence to support the notion that variations across firms in observed ownership structures cause systematic variations in observed firms' dividend pay-out behaviour. In this study, secondary data has been used and collected from Prowess and Capitaline databases. Sample used is BSE 100-Index companies for 15 years from 2000-2014, hence the data is panel data in nature. Behaviour of entities is observed across time under panel dataset. Variables used for this study are selected after extensive review of literature. Independent variables i.e., measures of ownership used in the study are promoters holding, non-promoters holding, non-promoters institutional holding and non-promoters non institutional holding. And dependent variable in this study is dividend pay-out ratio. Panel data regression model is used in the study along with descriptive statistics. As the data is panel data in nature, so in order to get unbiased results pooled regression analysis is first applied and then with the help of f-test and hausman test it is decided which model is suitable for the study. With f-test being significant, panel data regression model fits best for the study. Regression models are applied one by one, taking one independent variable and dependent variable into account at a time.Using panel data regression model in between all ownership structure measures and dividend policy, the empirical findings suggest that the probability value of t-statistic in case of non-promoters institutional holding and non-promoters non-institutional holding is found to be significant. In case of promoters holding and non-promoters holding (as a separate variable) no effect is found on DP ratio of the firm.

Key words: ownership structure, dividend policy, BSE

1. Introduction

Dividend settled from the corporations can be an optimistic action pertaining to the investors. The particular corporations, that do not pay dividends shell out benefits, are rated adversely by investors which often impact share price. The people who support relevance of dividends clearly state that regular dividend reduce uncertainty of the shareholders, however, it's exactly opposite in the case of increased uncertainty due to non-payment of dividends. Dividend policy is a central strategic concern around which other corporate financial policies rotate. Ross et al (2005) define corporate dividend policy as determining the amount to be paid to the shareholders and that to be retained in the company to reinvest in profitable projects or for retention in case of future needs. A group of researchers has argued that corporate dividend policy has influence on the firm's stock price which leads to increase the wealth of stockholders and hence increases firm value (e.g. Gordon, 1963; and Salih, 2010). One more party suggested that dividend obligations reduce this prosperity involving investors by simply decreasing stock options price, so because of this lessening firm worth (Pettit, 1972). The last group has adopted the opinion of irrelevance of dividend policy, i.e., for stock prices, and hence they say firm value is not affected by corporate dividend policy (e.g. Miller and Modigliani, 1961; Baker et al., 1985; and Farrelly et al, 1986).

The question that arises is why companies pay dividend. It's been the relevant question to consider and the emphasis of research has been on it since long time. Dividend policy is an important control tool to decrease the contradictory interests of the shareholders and managers. Shareholders are more interested in getting dividends now, but managers want to retain earnings for retaining higher control over the resources and for growth purposes.

A considerable theoretical literature, including (Linter, 1956), (Linter, 1962), (Bhattacharya, 1979; 1980), (Miller and Rock, 1985) found that corporate dividend policy is intended to reveal earnings potential to shareholders. (Jensen et al., 1992) found that higher the insider ownership in a firm, lower degree of dividend. (Short et al., 2002) analyse the potential relationship between ownership structures and dividend policy for the UK companies. They conclude that a positive relationship exists between dividend pay-out policy and institutional ownership. Furthermore, they found some facts in support of the hypothesis that there is a negative

relationship between dividend pay-out policy and managerial ownership. Kumar (2003) also examines the possible association between corporate governance, ownership structure and firm's dividend pay-out policy. He in his study found support for the relationship between ownership structure and dividend pay-out policy. Wei et al. (2003) examine the relationship between dividend pay-out policy and ownership structure using sample of 3994 observations from Chinese listed firms for the period from 1995 to 2001. They found that there is a significantly positive relationship between the state ownership and cash dividends, but a significantly negative relationship between the public ownership and stock dividends. Khan (2006) also investigates the relationship between dividends and ownership structure on a panel data set comprising of 330 large quoted UK firms. The result indicates a negative relationship between dividends and ownership concentration. Ownership composition also matters, with a positive relationship observed for shareholding by insurance companies, and a negative one for individuals. Jensen (1986) found that managerial control over the resources would reduce by paying the dividends to shareholders. Jensen (1986) and Rozeff (1982) argued that in order to ease out the agency problems the companies can use dividend pay-out policy. Their argument is that if dividends aren't paid to the shareholders, the active managers will start using these resources for his or her private benefits. Hence dividend policy helps the companies in controlling the agency costs balanced dividend policy.

Earlier research Claessens et al. (2000), Faccio et al. (2001) observes that a lot of public listed companies situated outside the US and UK have got high concentration of ownership having a single large shareholder or even shareholder group mainly managing corporations. The evidence associated with large shareholders within developed nations around the world alongside US and UK, European countries and East Asian countries tend to be in opposition to the idea of the actual separation of ownership from control viewed by Berle and Means (1932). The actual effective management of the large shareholders makes it possible for these decisions relating to exactly how companies tend to be work and as well decisions about corporate and business policies. On the other hand as explained by Holderness (2003), the actual function regarding large shareholders just isn't beautifully shaped inside the ownership literature particularly the actual role of the largest shareholder. The largest shareholder is distinctive group of shareholder, because their particular holding is usually related to benefits and costs specifically the actual

underinvestment costs (Truong and Heaney, 2007). Dividend policy is among company's decisions which have been identified to get effect by means of corporate and business ownership structure. Dividends Pay-outs enable to offset problems in the company (Jensen, 1986), therefore substitute large ownership as monitoring instruments. On the other hand large shareholders are able to use their capacity to expropriate corporate and business resources for their very own personal usage. The main focus of this study is to investigate the effect of the ownership structure on the corporate dividend policy by examining BSE 100 index companies' dividend pay-out patterns from 2000 to 2014.

2. Literature Review

A considerable literature which includes Bhattacharya (1979: 1980), Lintner (1962: 1970), Miller and Rock (1985), shows that corporate and business dividend policy is made to show earnings prospective customers to be able to shareholders. It is extremely challenging as well as essential decision that how much amount of earnings to be announced as dividends and how much to retain. There are many factors which play an important role and cause many issues in firms by dividend decisions because every decision maker has different approach to it, hence cause many problems which eventually affects firm performance. According to Jensen (1986), firms along with significant free cash flows usually tend to substantial agency costs. The actual existence associated with free cash flow may possibly direct to attempt sub-optimal investment decision. To relieve cash flows accessible to managers and then minimize agency costs Jensen (1986) indicates that it is preferable to return the surplus cash to shareholders because dividend as a way to reduce the potential for these types of funds being wasted on unprofitable initiatives.

Crutchley and Hansen (1989) analyze whether or not insider holding causes reduced agency costs by examining the actual connection between ownership dividend policy and leverage and conclude that manager controls agency costs by way of economic policy trade-off. Jensen et al (1992) review the determinants associated with cross sectional variations within insider holdings, debt and dividend policies of firms. They presume that in case the insider owners hold the significant shares of the firm then management effortlessly prefers not to declare more dividends. It is according to Rozeff's model who recommended that higher insider holding acts as an alternative intended for dividends since agency costs cutting down benefit. Dutta et al. (2000) prolong the last study regarding Jensen et al. (1992) by means of reviewing the particular impact

with the insider ownership level with corporate policy options. Mollah et al. (2000) test this impact associated with agency costs on dividend policy in a growing market. Kumar (2003) investigates the probable association among ownership structure, corporate governance and firm's dividend pay-out policy. He investigates the actual pay-out actions associated with dividends and the association of ownership structure for Indian |business firms over the time period 1994-2000. Kumar finds support for the relationship in between ownership structure and dividend pay-out policy. Khan (2006) furthermore investigates the relationship involving dividends and ownership structure for a panel of 330 large quoted UK companies. The outcome points out an adverse relationship between dividends and ownership concentration. Ownership composition likewise concerns having a positive relationship witnessed for shareholding by means of insurance firms, and an adverse one for individuals. The authors state that the growing markets are distinctive from developed markets in most aspects. From the sample associated with 153 non-financial sector companies listed on Dhaka stock exchange over the period of 1988-1997, Mollah et al. (2000) get an outcome promoting the agency cost theory of dividend policy. Dividends may also be used by controlling shareholders to be able to off-set the actual minority shareholder’s concern within an environment in which expropriation by controlling shareholders prevails (Faccio et al. 2001). On the other hand in the existence of large shareholders, lower dividend payments can be seen since dividends are not required to perform as a substitute agency control device (Goergen et al. 2005).

Dividends are usually considered as an alternative procedure to large shareholder ownership within agency conflicts. Several studies have examined the relationship between the largest shareholder and dividend policy. A negative relationship between the largest shareholder and dividends are observed by Mancinelli and Ozkan (2006), Renneboog and Trojanowski (2007). While a positive association between the largest shareholder and dividend pay-outs is observed by Truong and Heaney (2007) based on the sample drawn from 37 countries. Empirical tests on the impact of multiple large shareholders on dividend policy are limited. Only few studies have dealt with this concern. Faccio et al (2000) show that dividend rates are higher in Europe, but lower in Asia, when there are multiple large shareholders, suggesting that they dampen expropriation in Europe, but exacerbate it in Asia. Maury and Pajustie (2002) find that the presence of another larger shareholder for Finnish companies affects the payout ratio negatively.

However, in the context of Germany, Gugler and Yurtoglu (2003) find that larger holdings of the second largest shareholder increase the dividend pay-out ratio.

Several reports have examined the relationship between largest shareholder and dividend policy. An adverse relationship between largest shareholder and dividends is observed by Mancinelli and Ozkan (2006), Renneboog and Trojanowski (2007). Although a positive connection between largest shareholder and dividend pay-outs is usually noticed by Truong and Heaney (2007) using the sample drawn from 37 countries. Empirical checks on effect associated with multiple large shareholders on dividend policy tend to be confined. Only couple of studies have addressed this particular issue. Faccio et al (2000) present that dividend rates are generally greater in Europe but lower in Asia, when there are several large shareholders indicating that they can lower expropriation in Europe but aggravate in Asia. Maury and Pajustie (2002) discover that the actual presence of another larger shareholder with regard to Finnish companies impacts the payout ratio in a negative way. On the other hand, within the circumstances of Germany, Gugler and Yurtoglu (2003) find that larger holdings of the second shareholder boost the dividend pay-out ratio.

3. Methodology

In the research study following statistical methods are applied:

3.1 Descriptive analysis: In the research study the secondary data of different variables related to Ownership structure and firm performance in the Index BSE-100 in Indian stock market. The data is collected from the different sources as mentioned in above sections. The descriptive analysis of the variables is done and represented. In descriptive analysis of the variables, the measure of central tendency (mean, median), distribution, minimum and maximum values are estimated.

3.2 Panel data regression model: Panel data is data that involves measurements of many individual units over a period of time, i.e., the same cross-sectional unit is surveyed over time. In short, panel data has the **space** and **time** dimensions. In the study the time series data of different variables related to ownership structure and dividend pay-out of the companies in the Index BSE-100 in Indian stock market is selected for 15 years.Hence the nature of the data is panel

data. In order to analyse the panel data, the fixed and random effect model is applied in the study. The panel data regression model can be represented as:

$$Y_{it} = \beta_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \ldots\ldots \beta_k X_{kit} + u_{it}$$

The subscript i indicate the cross-sections considered in the study and t represents the time series behaviour of the variables. The choice of fixed effect model and random effect model depends on the results of f test as well as Hausman test.

3.3 Need of the study

In this paper we investigate whether there is evidence to support the notion that variations across firms in observed ownership structures result in systematic variations in observed dividend policy in the context of Indian firms. We test this hypothesis by assessing the impact of the structure of ownership on firm dividend policy measured by dividend pay-out ratios using data of BSE 100 Index from 2000-2014, covering all sectors. The structure of ownership of Indian firms has not been studied extensively, nor has its impact on performance been assessed. This paper tries to fill this gap.

3.4 Source of data

The study uses the BSE 100 Index companies provided by the BSE as the sample. The list consists of 100 companies. Dividend pay-out ratio has been taken as measure for variations in dividend policy,and ownership structure measures such as promoters, non-promoters, non-promoters institutional and non-promoter non institutional shareholding data from 'Prowess' data base of the Centre for Monitoring Indian Economy (CMIE) for the period of 15 years starting from 2000-2014.

4. Results

This section discusses the results of statistical results and interpretation of the data analysis done on the collected secondary data of selected variables for the firms.

4.1 Descriptive analysis

In this research study the annual data of the dividend policy measure is selected for 15 years (2000-2014) in order to analyze the performance of selected firms. Dividend pay-out ratio is taken as a measure for dividend policy. Further, ownership structure of selected firms is expressed by four different aspects which are promoters holding, non-promoters holding, (subdivided into two more categories non-promoter institutional holding and non-promoter non-institutional holding).

The results indicate that the Hero Motocorp Ltd. is having the highest average DPR of (1803.33 percent)in last 15 years followed by Colgate-Palmolive (India) Ltd.1033.16 percent,Infosys Ltd. 737 percent, Hindustan Unilever Ltd. 724.43 percent and Crisil Ltd. 620 percent. In the BSE100 firms only one firm is such which has not issued any dividend and that is Essar Oil Ltd.The companies with lowest positive DPR are I F C I Ltd. 4.1429 percent, Arvind Ltd. 4.66 percent, Mangalore Refinery & Petrochemicals Ltd. 8.3 percent, Kotak Mahindra Bank Ltd. 14.86 percent and Escorts Ltd. 16.5 percent.In the study afrequency distribution of the companies is done on the basis of DPR. The frequency distribution is shown below in table 1.

Table 1: Frequency distribution of firm's w.r.t Average DPR for the period 2000-2014

Average DPR	**Frequency**	**Percent**
less than 50%	20	20.00%
50% - 100%	27	27.00%
100% - 150%	22	22.00%
150% - 200%	8	8.00%
more than 200%	23	23.00%
Total	100	100.00%

The results indicate that 23 percent of firms in BSE 100 Index are having average DPR more than 200 percent, 8 percent of the firms are having average DPR in the range of 150 – 200 percent, 22 percent of the firms are found to have average DPR of 100 – 150 percent, 27 percent of firms are found to have average DPR in the range of 50 – 100 percent and 20 percent of the firms are having the DPR Less than 50 percent.

4.2 Panel Data Model Selection

In the case of pooled regression model, it is assumed that all firms are Homogenous and there is no impact of time on the DPR of the firms. Hence in pooled regression model the data is assumed to be cross sectional in nature. However, the data collected in the research study is panel data because the data of selected variables are collected for 100 firms in BSE 100 Index for the period of 2000-2014. Hence the panel regression model is applied to analyze the impact of ownership structure on the firm's dividend policy.

In panel data regression model two popular tests are available, fixed effect model and random effect model. The fixed effect model assumes that the firms are heterogeneous in nature. However the random effect model is applied to get generalized results assuming that firms in the sample are randomly selected. Statistically f-test and Hausman test is used to identify the most suitable panel regression model to be applied in the study. The results of f-test and Hausman test are shown below

Table 3: F-test and hausman test for model selection

Dependent Variable	**Independent variable**	**F-test (p value)**	**Hausman test (p value)**	**Panel data regression model to be applied**
DP ratio	Promoters holding	11.58 (.000)	1.81 (.178)	Random Effect Model
	Non promoters holding	12.24 (.000)	1.95 (.162)	Random Effect Model
	Non promoters Institutional	12.21 (.000)	.271 (.602)	Random Effect Model
	Non promoters non institutional	12.45 (.000)	1.58 (.208)	Random Effect Model

The results of f-test indicate that the probability value of f-statistic is less than 5% level of significance. Hence with 95% of confidence level it can be concluded that the fixed effect model is significantly better than pooled regression model. However, the Hausman test indicates that the probability value is not less than 5% level of significance in any variable of the study i.e.,

promoters holding, non-promoters holding, non-promoters institutional and non-promoters non institutional. Hence the null hypothesis that the effects are random cannot be accepted in any variable in study and it can be concluded that random effect model is suitable to apply for analysis.

4.4 Panel Data Regression Model

In order to analyze the impact of ownership in the selected companies on DPR of the firms, the random effect model is applied. In the analysis the DPR is considered as dependent variable however the different types of ownership structures are considered as independent variables. The randomeffect model is applied with DPR as dependent variable and promoters holding, non-promoter holding, non-promoter institutional and non-promoter non institutional holding as ownership structure in the firms as independent variable. The result of the panel regression model is shown below in table

Table4: Panel data analysis showing impact of ownership structure on dividend pay-out ratio

Panel regression model	Independent variable	Regression coefficients		T statistics (p value)	F statistics (p value)	R square
Random Effect Model	Promoters Holding	Intercept Alpha	108.32	2.037 (.0418)	1.931 (0.164)	.00194
		Beta	1.381	1.39 (0.164)		
Random Effect Model	Non Promoters Holding	Alpha	244.48	4.851 (0.000)	2.681 (0.1017)	.00198
		Beta	-1.347	-1.636 (.1020)		
Random Effect Model	Non Promoters Institutional Holding	Alpha	95.27	2.807 (0.0051)	11.87 (.00058)	.00873
		Beta	2.817	3.441 (0.0006)		
Random Effect Model	Non Promoters Non Institutional Holding	Alpha	301.22	9.159 (0.000)	36.82 (0.000)	.0266
		Beta	-5.13	-6.064 (0.000)		

The results indicate that the probability value of t-statistic in case of non-promoters institutional holding and non-promotersnon-institutional holding is found to be significant. Hence it can be concluded that the non-promoters institutional holding and non-promoters non-institutional holding have a significant impact on DP ratio of the firm. In case of promoters holding and non-promoters holding (as a separate variable) no effect is found on DP ratio of the firm.

5. Conclusion

In this study it was found that the ownership of non-promoters institutional holding and non-promoters non institutional holdinghas a significant impact on DPR of the firm. In case of promoters holding and non-promoters holding no effect is found on DPR of the firm. The results are in support of (Renneboog & Trojanowski, 2005), who also observed that the existence of strong block-holders or the concentration of large shareholders weakens the relationship between the firm's income and the dividend pay-out ratio. Waud (1966) and (Short, Zhang and Keasey, 2002) also found there is significant relationship between dividend policy and institutional ownership. The relationship is also evidently recognized in the work of (Short et al., 2002) who on the one hand showed the positive alliance between institutional ownership and dividend policy and on the other hand showed negative alliance between the management ownership and dividend policy.

Dividend payment could create conflicts among the managers and shareholders because managers are more willing to retain resources instead of paying dividends for growth purposes. Managers are more in favour in following the growth strategies for their firms because by growth comes more power to control these resources. On the other hand, retail shareholders favour dividends instead of retained earnings. When profits are not paid to the shareholders by way of dividend, there is risk that the managers might change their intentions towards the welfares of the management or these retained earnings might be invested into unprofitable projects and this could be the possible reason that retailers have a significant impact on dividend pay-out policy.
The reason behind the insignificant results of promoters holding in relation to dividend pay-out could possibly be that the existence of strong block-holders or the concentration of large shareholders weakens the bond between the firm’s earnings and the dividend pay-out ratio. In

this line, India is also having concentrated ownership and it can be concluded that greater the concentrated ownership structure; greater will be the need for monitoring.

The results claim that institutional shareholders are having significant impact which goes with the finding Jensen (1986) and Rozeff (1982) who argued that by dividend pay-out policy, the companies can ease the agency problems. According to them, the active managers start using these resources for his or her private benefits, if dividends aren't paid to the shareholders. Dividend policy helps the companies to get to know how to control the agency costs balanced dividend policy. Jensen (1986) found that managerial control over the resources would reduce by paying the dividends to shareholders. Institutional investors are the large shareholders such as banks, investments firms, insurance companies and other financial institutions etc., who having huge amount of funds are capable of investing funds in several. Therefore, they are extremely influential in accomplishing their corporate governance roles as corporate governance is concerned to lessen the agency cost.

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