

**ROLE OF OWNERSHIP STRUCTURE IN THE  
DETERMINATION OF THE CORPORATE DIVIDEND  
POLICY AND FIRM VALUE**

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**Role of Ownership Structure in the determination of the  
Corporate Dividend Policy and Firm Value**

**by**

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## CERTIFICATE

The thesis titled “**Role of Ownership Structure in the Determination of the Corporate Dividend Policy and Firm Value,**” being submitted by **Ms. Neha Gosain** to the **Indian Institute of Technology Delhi** for the award of the degree of Doctor of Philosophy, is a record of bonafide research work carried out by her. She has worked under our guidance and supervision and has fulfilled all the requirements for the submission of this thesis, which has attained the standard required for a Ph.D. degree at this institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

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## ABSTRACT

The study examines the influence of Ownership Structure (henceforth, OS) on dividend policies and firm value in non-financial companies in India. The research utilizes 18,130 firm-year observations from Indian-listed firms for the period 2001-22. Employing both a static (Tobit) and dynamic methodology (GMM), we report that ownership by promoters and institutional (foreign and domestic) investors has a positive impact on dividend payments. In contrast, the ownership of retail (public) investors has a negative effect. We do not report a significant impact of ownership by the state/ government. This highlights the significance of OS in influencing these companies' dividend policies. Moreover, we observe a direct and substantial impact of ownership by promoters and institutional investors (domestic and foreign) on the firm's value. On the other hand, the ownership by retail investors has a detrimental impact on the company's value, while government ownership does not exhibit any meaningful impact on firm value. Furthermore, dividends have a mediating effect on the link between promoter ownership and the corporation's value.

Despite extensive research on OS worldwide, India's OS differs significantly from Anglo-American models, which has been the focus of academia. In India, the majority of enterprises are promoter-owned. This fact further prompted us to explore contemporary challenges related to dividend policy and promoter ownership in this thesis. Thus, our research objectives were to analyze how ownership by promoters moderates the relationship between Corporate Social Responsibility (CSR) and dividend payouts, the impact of promoter's share pledging on dividend distribution, and the dividend policies of promoter-owned firms during the COVID-19 pandemic.

We observe that ownership by promoters has a non-linear impact on the effects of CSR on dividends. We obtained the inflection point where the impact changes from negative to

positive. Higher levels of promoter ownership amplify the positive impact of CSR on dividends, lending evidence to the socioemotional wealth (SEW) theory. Further, from our study, we find that promoter ownership typically leads to higher dividend payouts. However, when promoters pledge their shares, they are quicker to withdraw dividends payouts compared to non-promoter-owned firms. This reduction is due to anticipated margin calls and potential liquidation risks, leading promoters to prioritize their financial security and influencing firm decisions such as dividend policies. While share pledging facilitates fundraising without diluting ownership, it can result in minority shareholder expropriation.

The payment of higher dividends by promoters during economic stability aligns with the signaling theory given by Baker et al. (2016). Nevertheless, the pandemic has disturbed this relationship, emphasizing the heightened challenges of control that promoters face in their ownership of enterprises amid economic downturns. The ownership of promoters is linked to an increased probability of cutting payouts during periods of crisis, suggesting agency-related issues during such times. Our findings indicate that OS plays a vital role in shaping dividend policies and firm value, with notable variations observed during economic downturns.

To summarize, firms with higher promoter ownership tend to increase dividends and have an enhanced firm value. Such an approach addresses minority concerns and builds a good reputation. However, the capital market must be cautious when dealing with this class of owners who may exert their influence and extract benefits of private control in certain situations. We record this when promoters pledge their shares or face a crisis, such as during COVID-19. Under these conditions, promoter-owned enterprises have lower dividends and firm value than non-promoter-owned firms.

## सार

अध्ययन भारत में गैर-वित्तीय कंपनियों में लाभांश नीतियों और फर्म मूल्य पर स्वामित्व संरचना (इसके बाद, ओएस) के प्रभाव की जांच करता है। शोध 2001-22 की अवधि के लिए भारतीय-सूचीबद्ध फर्मों से 18,130 फर्म-वर्ष अवलोकनों का उपयोग करता है। एक स्थिर (टोबिट) और गतिशील पद्धति (जीएमएम) दोनों को नियोजित करते हुए, हम रिपोर्ट करते हैं कि प्रमोटरों और संस्थागत (विदेशी और घरेलू) निवेशकों के स्वामित्व का लाभांश भुगतान पर सकारात्मक प्रभाव पड़ता है। इसके विपरीत, खुदरा (सार्वजनिक) निवेशकों के स्वामित्व का नकारात्मक प्रभाव पड़ता है। हम राज्य/सरकार द्वारा स्वामित्व के महत्वपूर्ण प्रभाव की रिपोर्ट नहीं करते हैं। यह इन कंपनियों की लाभांश नीतियों को प्रभावित करने में ओएस के महत्व पर प्रकाश डालता है। इसके अलावा, हम फर्म के मूल्य पर प्रमोटरों और संस्थागत निवेशकों (घरेलू और विदेशी) के स्वामित्व का प्रत्यक्ष और पर्याप्त प्रभाव देखते हैं। इसके अलावा, लाभांश का प्रमोटर स्वामित्व और निगम के मूल्य के बीच संबंध पर मध्यस्थ प्रभाव पड़ता है। दुनिया भर में OS पर व्यापक शोध के बावजूद, भारत का OS एंग्लो-अमेरिकन मॉडल से काफी अलग है, जो शिक्षा जगत का केंद्र रहा है। भारत में, अधिकांश उद्यम प्रमोटर के स्वामित्व वाले हैं। इस तथ्य ने हमें इस थीसिस में लाभांश नीति और प्रमोटर स्वामित्व से संबंधित समकालीन चुनौतियों का पता लगाने के लिए प्रेरित किया। इस प्रकार, हमारे शोध के उद्देश्य यह विश्लेषण करना था कि प्रमोटरों द्वारा स्वामित्व कॉर्पोरेट सामाजिक उत्तरदायित्व (CSR) और लाभांश भुगतान, लाभांश वितरण पर प्रमोटर के शेयर गिरवी रखने के प्रभाव और COVID-19 महामारी के दौरान प्रमोटर के स्वामित्व वाली फर्मों की लाभांश नीतियों के बीच संबंधों को कैसे नियंत्रित करता है। हम देखते हैं कि प्रमोटरों द्वारा स्वामित्व का लाभांश पर CSR के प्रभावों पर गैर-रैखिक प्रभाव पड़ता है। हमने वह विभक्ति बिंदु प्राप्त किया जहां प्रभाव नकारात्मक से सकारात्मक में बदल जाता है। प्रमोटर स्वामित्व के उच्च स्तर लाभांश पर CSR के सकारात्मक प्रभाव को बढ़ाते हैं, जो सामाजिक-भावनात्मक धन (SEW) सिद्धांत को साक्ष्य प्रदान करते हैं। इसके अलावा, हमारे

अध्ययन से, हम पाते हैं कि प्रमोटर स्वामित्व आम तौर पर उच्च लाभांश भुगतान की ओर ले जाता है। हालाँकि, जब प्रमोटर अपने शेयर गिरवी रखते हैं, तो वे गैर-प्रमोटर-स्वामित्व वाली फर्मों की तुलना में लाभांश भुगतान वापस लेने में तेज़ होते हैं। यह कमी प्रत्याशित मार्जिन कॉल और संभावित परिसमापन जोखिमों के कारण होती है, जिससे प्रमोटर अपनी वित्तीय सुरक्षा को प्राथमिकता देते हैं और लाभांश नीतियों जैसे फर्म के निर्णयों को प्रभावित करते हैं। जबकि शेयर गिरवी रखने से स्वामित्व को कम किए बिना फंड जुटाने में सुविधा होती है, लेकिन इसके परिणामस्वरूप अल्पसंख्यक शेयरधारक का अधिग्रहण हो सकता है। आर्थिक स्थिरता के दौरान प्रमोटरों द्वारा उच्च लाभांश का भुगतान बेकर एट अल (2016) द्वारा दिए गए सिग्नलिंग सिद्धांत के अनुरूप है। फिर भी, महामारी ने इस संबंध को बिगाड़ दिया है, आर्थिक मंदी के दौरान उद्यमों के स्वामित्व में प्रमोटरों के सामने आने वाली नियंत्रण की बढ़ी हुई चुनौतियों पर जोर दिया है। प्रमोटरों का स्वामित्व संकट की अवधि के दौरान भुगतान में कटौती की बढ़ी हुई संभावना से जुड़ा हुआ है, जो ऐसे समय के दौरान एजेंसी से संबंधित मुद्दों का सुझाव देता है। हमारे निष्कर्ष बताते हैं कि OS लाभांश नीतियों और फर्म मूल्य को आकार देने में महत्वपूर्ण भूमिका निभाता है, जिसमें आर्थिक मंदी के दौरान उल्लेखनीय बदलाव देखे जाते हैं। संक्षेप में, उच्च प्रमोटर स्वामित्व वाली फर्मों में लाभांश में वृद्धि होती है और उनका फर्म मूल्य बढ़ा होता है। ऐसा दृष्टिकोण अल्पसंख्यक चिंताओं को संबोधित करता है और एक अच्छी प्रतिष्ठा बनाता है। हालाँकि, पूंजी बाजार को मालिकों के इस वर्ग से निपटने में सतर्क रहना चाहिए जो कुछ स्थितियों में अपने प्रभाव का इस्तेमाल कर सकते हैं और निजी नियंत्रण का लाभ उठा सकते हैं। हम इसे तब रिकॉर्ड करते हैं जब प्रमोटर अपने शेयर गिरवी रखते हैं या किसी संकट का सामना करते हैं, जैसे कि COVID-19 के दौरान। इन परिस्थितियों में, प्रमोटर के स्वामित्व वाले उद्यमों में गैर-प्रमोटर-स्वामित्व वाली फर्मों की तुलना में कम लाभांश और फर्म मूल्य होता है।

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## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Definition</b>
CSR	Corporate Social Responsibility
DDT	Dividend Distribution Tax
EPS	Earnings Per Share
ESG	Environmental, Social, and Governance
ETF	Exchange Traded Funds
FCF	Free Cash Flows
GFC	Global Financial Crisis
ILC	Indian Listed Companies
IPO	Initial Public Offer
LTCG	Long-Term Capital Gain
OC	Ownership Concentration
OI	Ownership Identity
OS	Ownership Structure
P/E	Price-to-earnings ratio
PSUs	Public Sector Undertakings
SEBI	Securities and Exchange Board of India
SEW	Socioemotional Wealth
SOE	State Owned Enterprise
VIF	Variance Inflation Factor

## DESCRIPTION OF VARIABLES

VARIABLES	DEFINITION
<i>Dependent variables</i>	
<i>DIVDUMMY</i>	Dichotomous with 1 if the dividend is paid in a year, 0 if not paid
<i>DIV_TA</i>	Cash dividends paid at the end of the year divided by total assets
<i>DIV_TA<sub>t-1</sub></i>	<i>DIV_TA</i> in the year t-1
<i>DIV_RATIO</i>	Dividend per share divided by earnings per share as disclosed by the company in its annual report for a particular year
<i>DEC_DUMMY</i>	Dichotomous variable: 1 for dividend decrease, and 0 otherwise
<i>INC_DUMMY</i>	Dichotomous variable: 1 for a dividend increase, and 0 otherwise
<i>OMIT_DUMMY</i>	Dichotomous variable: 1 for dividend omissions, and 0 otherwise
<i>NC_DUMMY</i>	Dichotomous variable: 1 for dividend no change, and 0 otherwise
<i>DIV_POLICY</i>	Cash dividends paid plus repurchases during the year
<i>Modest increase</i>	Dichotomous variable: 1 for a dividend increase of less than 25%, and 0 otherwise
<i>Steep increase</i>	Dichotomous variable: 1 for a dividend increase more than 75%, and 0 otherwise
<i>Modest decrease</i>	Dichotomous variable: 1 for dividend decrease less than 25%, and 0 otherwise
<i>Steep decrease</i>	Dichotomous variable: 1 for dividend decrease more than 75%, and 0 otherwise
<i>Key independent (Ownership) variables</i>	
<i>PR_PCT</i>	Promoters' ownership
<i>RETAIL_PCT</i>	Percentage ownership by retail investors
<i>INST_PCT</i>	Percentage ownership by institutional investors
<i>DII_PCT</i>	Percentage ownership by domestic institutional investors
<i>FII_PCT</i>	Percentage ownership by foreign institutional investors
<i>GOVT_PCT</i>	Percentage ownership by state
<i>PR_DUMMY (0-26)</i>	Dummy variable equal to 1 if promoter ownership is between 0-26%, 0 otherwise
<i>PR_DUMMY (26-51)</i>	Dummy variable equal to 1 if promoter ownership is between 26-51%, 0 otherwise

<i>PR_DUMMY (&gt;51)</i>	Dummy variable equal to 1 if promoter ownership is between 51-100%, 0 otherwise
<i>PR_PCTSQ</i>	Square of promoter ownership
<i>PRDUMMY&lt;54</i>	Dummy variable equal to 1 if promoter ownership is less than 54%, 0 otherwise
<i>Control variables</i>	
<i>AT_RATIO</i>	Asset turnover ratio
<i>SIZE</i>	Natural log of total assets at the end of the year
<i>AGE</i>	Natural log of years since incorporation
<i>EBITSALES</i>	Earnings before interest and tax scaled by total sales
<i>RISK</i>	The standard deviation of Earnings before interest, taxes, and depreciation (EBITDA)
<i>FCF</i>	Unlevered free cash flow. (EBITDA - net capital expenditure)/total asset
<i>CAPEX</i>	Change in gross fixed assets scaled by total assets at the end of the year.
<i>LEV</i>	Leverage measures the proportion of debt in the capital structure.
<i>Other variables</i>	
<i>PANDEMIC</i>	Dichotomous variable: 1 for observation from 2020-2021
<i>CSR</i>	Amount spent on CSR activities in a year
<i>PLG_DUMMY</i>	Dichotomous variable: 1 in case promoters pledge their shares at the end of the year, 0 if not
<i>PLG_RATIO</i>	Shares pledged divided by total equity of promoters at the end of the year
<i>PLG_TOTAL</i>	Number of shares pledged by promoters divided by total shares outstanding in the firm at the end of the year
<i>LARGE</i>	A dichotomous variable for firms below the median level equal to 0 and 1 otherwise, when observations are ranked as per the number of large shareholders
<i>TOBIN'S Q</i>	A measure of firm value calculated as: (market value of equity + debt) / total assets
<i>RPT_RATIO</i>	(Net change in related party transactions in a year ) / total assets.
<i>Increasing</i>	No. of firms enhancing dividends from the prior year

<i>Decreasing</i>	No. of firms reducing dividends from the prior year
<i>Omitting</i>	No. of firms suspending dividends from the prior year
<i>No change</i>	No. of firms maintaining dividends from the prior year
<i>IndAvg_PR_PCT</i>	Mean industry average of the percentage ownership by promoters

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