Finance

Research Paper



Impact of Foreign Institutional Investors On Corporate Dividend Policy in India

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ABSTRACT

This paper empirically investigates the impact of foreign institutional investors on dividend policy among Indian corporates. Using sample firms whose ownership by foreign investors was 5% or higher through the fiscal period from 2008 to 2012, the study examined whether foreign institutional investors with more than 5% of a company's shares can exert a significant impact on dividends. In addition, the study investigated, if more shares that foreign institutional investors have over major shareholders and the more shares that foreign institutional investors have over the previous year, the stronger the impact of foreign institutional investors have on corporate dividend policy. This study shows the impact of foreign institutional investors from the viewpoint of corporate governance in India, where local institutional investors play inadequate roles as Stakeholders.

Keywords : Foreign Institutional Investors, Dividend Policy, Corporate Governance

Introduction

The right of shareholders tends to have strengthened in India, as the corporate governance structure has improved steadily since the Asian financial crisis of 1997. As a result, any shareholder who owns more than five per cent of the shares of a company can intervene in or check on corporate management. For example, they can call for a general meeting of stockholders or ask for the dismissal of a director. Previous studies analyzing the relationship between foreign investors and dividend policy have shown conflicting results (K. Park; Bin and Cho; H. Par; Sui and Kim). This is mainly caused by the differences in samples, dependent variables, and methodology used for different studies. This area thus requires further study to be conducted from various perspectives.

OBJECTIVES OF THE STUDY

- To study the relationship between the sum of shareholding ratio of foreign institutional investors who own more than five percent shares on corporate dividend policy.
- To find out the relationship between simple sum of foreign investors' share holdings, and the corporate dividend policy.
- To study the relationship between the sum of share holding proportion of foreign institutional investors with more than five percent over that of majority shareholders and corporate dividend policy.

HYPOTHESES

- The higher the value of the sum of the shareholding ratio of foreign institutional investors who own more than five per cent shares, as opposed to the simple sum of foreign investors' shareholdings, the more impact it has on corporate dividend policy.
- The higher the shareholding proportion of foreign institutional investors with more than five per cent over that of majority shareholders, the stronger the influence the former have on dividend policy.
- The higher the proportion of foreign institutional investors' shares of more than five per cent over that of the preceding year, the stronger the influence they have on dividend.

RESEARCH METHODOLOGY

Out of the companies listed in BSE, during the period from 2008 to 2012, companies in which the proportion of foreign investment was more than 5% over the five consecutive fiscal years were chosen. Companies involved in industries where FIs face restrictions in acquiring shares such as telecommunications, airlines were excluded. Financial institutions are excluded from the sample as their accounting procedures, governance and regulations differ. In addition, companies under special administration, whose capital was eroded, that had been merged or split, whose settlement month had been switched, or that had been privatised were all excluded. The sample consists of two companies each from Banking, Manufacturing, Pharmaceuticals, IT, Infrastructure, FMCG, Automobile, Steel and Real Estate. Thus, the final sample consisted of 18 firms and 90 observations. The data were collected from the BSE website and Annual Reports of Companies, Regression Analysis and ANOVA were used for finding out the relationship between variables and the nature of such relationship.

Results and discussion Table 1

Relationship between Sum of share-holding ratio of FIIs and Dividend payout ratio

Coefficients ^a					
Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		_
	В	Std. Error	Beta		
(Constant)	31.799	6.689		4.754	.000
FINVT	184	.221	088	833	.407

a. Dependent Variable: PAYR

Adjusted R square value is -0.003.The variation in FINVT leads to a variation in PAYR by -0.3%. Significance is 0.407 which is more than 0.05 so the variation is insignificant. Dividend payout ratio(y) = 31.799+(-0.184) (FINVT). FINVT is negatively related to Dividend Payout Ratio (PAYR). It shows that when FINVT increases PAYR decreases

Adjusted R square value is 0.006 (Table 2). The variation in FINVT leads to a variation in PAYR by 0.6%. Significance is 0.212 which is more than 0.05 so the variation is insignificant. Dividend payout ratio(y) = 29.926 + (-0.445)(F5%). F5% is negatively related to Dividend Payout Ratio (PAYR). It shows that when F5% increases PAYR decreases.

Table 2

Relationship between Sum of share holding ratio of FIIs who own more than 5% of shares of a company and Dividend payout ratio

Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
(Constant)	29.926	3.785		7.908	.000	
F5%	445	.354	133	-1.257	.212	
a Dependent Variable: BAYB						

a. Dependent Variable: PAYR

Table 3

Relationship between between Sum of share holding ratio of foreign institutional investors who own more than 5% of shares of a company/ownership ratio of the majority share holder and Dividend payout ratio.

Coefficients ^a								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.			
(Constant)	27.575	3.042		9.066	.000			
F5%OWN	-1.920	2.570	079	747	.457			
- Demendent Variable: DAVD								

a. Dependent Variable: PAYR

Adjusted R square value is -0.005. The variation in F5%OWN leads to a variation in PAYR by -0.5%. Significance is 0.457 which is more than 0.05 so the variation is insignificant. Dividend payout ratio(y) = 27.575+(-1.920)(F5%OWN). F5%OWN is negatively related to Dividend Payout Ratio (PAYR). It shows that when F5%OWN increases PAYR decreases.

Relationship between between Sum of share holding ratio of foreign institutional investors who own more than 5% of shares of a company of the current term - that of the previous term and Dividend payout ratio.

Adjusted R square value is -0.005. The variation in FINVT leads to a variation in PAYR by -0.5%. Significance is 0.449 which is more than 0.05 so the variation is insignificant. Dividend payout ratio(y) = 26.878+ (-.357) (F5%CHR). F5%CHR is negatively related to Dividend Payout Ratio (PAYR). It shows that when F5%OWN increases PAYR decreases.

Relationship between Sum of share-holding ratio of foreign (institutional) investors for a specific firm (FINVT) and Dividend Yield for Common Stock(DYCOM)

Adjusted R square value is -0.011. The variation in FINVT leads to a variation in DYCOM by -1.1%. Significance is 0.979 which is more than 0.05 so the variation is insignificant. Dividend Yield to Common Stock(y) = 2.052+ 0.001(FINVT). FIN-VT is negatively related to Dividend Yield to Common Stock. It shows that when FINVT increases DYCOM increases slightly.

Relationship between Sum of share holding ratio of foreign institutional investors who own more than 5% of shares of a company for a specific firm. (F5%) and Dividend Yield for Common Stock (DYCOM).

Adjusted R square value is -0.007. The variation in F5% leads to a variation in DYCOM by -0.7%. Significance is 0.52 which is more than 0.05 so the variation is insignificant. Dividend Yield to Common Stock(y) = 1.883+0.026(F5%). F5% is positively related to Dividend Yield to Common Stock. It shows that when F5% increases DYCOM increases.

Relationship between Sum of share holding ratio of FIIs who own more than 5% of shares of a company/ownership ratio of the majority share holder and Dividend Yield for Common Stock

Adjusted R square value is 0.07. The variation in F5%OWN leads to a variation in DYCOM by 7%. Significance is 0.007 which is less than 0.05 so the variation is significant. Dividend Yield to Common Stock(y) = 1.735+0.782 (F5%OWN). F5%OWN is positively related to Dividend Yield to Common Stock. It shows that when F5%OWN increases DYCOM increases

Relationship between Sum of share holding ratio of FIIs who own more than 5% of shares of a company of the current term - that of the previous term and Dividend Yield for Common Stock

Adjusted R square value is -0.006. The 6variation in F5%CHR leads to a variation in DYCOM by -0.6%. Significance is 0.485 which is more than 0.05 so the variation is insignificant. Dividend Yield to Common Stock(y) = 2.085+(-0.038)(F5%CHR). F5%CHR is positively related to Dividend Yield to Common Stock. It shows that when F5%CHR increases DYCOM decreases.

Testing of Hypothesis 1

The regression coefficient is more negative in the relationship between sum of share holding ratio of FIIs who own more than 5% of shares of a company and dividend payout ratio, than the relationship between sum of share-holding ratio of FIIs and dividend payout ratio, hence F5% has more impact on PAYR than FINVT. Relationship between sum of share holding ratio of FIIs who own more than 5% of shares of a company for a specific firm and dividend yield for common stock shows that the regression coefficient is higher than relationship between sum of share-holding ratio of FIIs and dividend yield for common stock; hence F5% has more impact on DYCOM than FINVT. But all the relationships are statistically insignificant. Therefore Hypothesis 1 stands rejected.

Testing of Hypothesis 2

The regression coefficient is negative and insignificant in the Relationship between between Sum of share holding ratio of foreign institutional investors who own more than 5% of shares of a company/ownership ratio of the majority share holder and Dividend payout ratio, hence F5%OWN does not have an impact on PAYR. The regression coefficient is positive and significant in , relationship between sum of share holding ratio of FIIs who own more than 5% of shares of a company for a specific firm and dividend yield for common stock, hence F5%OWN has significant impact on DYCOM. Therefore hypothesis 2 is partially proved to be significant.

Testing of Hypothesis 3

The regression coefficient is negative and insignificant in both, hence it is concluded that F5%CHR does not have an impact on PAYR and DYCOM. Therefore hypothesis 2 is rejected at five per cent level of significance.

Conclusion

The study documented evidence for the argument that foreign institutional investors do not have a significant impact on corporate dividends. Indian firms whose ownership by foreign investors was five per cent or higher through the fiscal period from 2007 through 2011. Results reveal that foreign institutional investors with more than five per cent ownership, rather than whole foreign shareholders, do not have a stronger and more significant positive impact on dividends. We examine the effect on dividends of foreign institutional investors who own more than five per cent shares from the viewpoint of corporate governance and find that the higher the shareholding proportion of foreign institutional investors with more than 5 per cent over that of majority shareholders, the more significant and positive the influence the former have on dividend yield.

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